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By P. T. Bauer
FELLOW OF GONVILLE AND
CAIUS COLLEGE, CAMBRIDGE

Origins of the Statutory Export Monopolies of British West Africa[1]

In 1947 and 1949 statutory monopolies were established over the export of all major agricultural products from British West Africa. This device was justified chiefly on the ground that it would serve to stabilize the incomes of the peasant producers. This justification is not supported either by economic analysis or by history. The statutory monopolies seem rather to have emerged from a confluence of events and opinions in the preceding decade: the widespread belief that middlemen are socially unproductive, the search by the members of a trade association for some way to restrict competition and safeguard their profits, the formation of export control boards as a wartime measure and the resultant creation of influential administrative positions, the predilection of the administrators for tidiness, the recent emphasis on compulsory saving as an instrument for development of backward areas and the opinion that socialization of peasant saving would contribute to that development.

Government marketing boards have a statutory monopoly over the export from British West Africa (Nigeria, the Gold Coast, Sierra Leone, and the Gambia) of cocoa, groundnuts, palm oil, palm kernels, cotton, and several minor products; these account for practically the whole of the agricultural exports from this area.[2] Recently similar marketing systems, modelled on these organisations in British West Africa, have been introduced throughout British Africa (as well as in other British colonies), so that this type of marketing now covers the bulk of the export crops, and indeed of the cash crops, of most of the population of the British colonies.

This system of marketing is likely to have far-reaching social, economic and political results through a large part of this vast area, inhabited by scores of millions of people. The operation of market-

[1] Several topics discussed in this paper are considered at greater length or in a different context in my forthcoming book *West African Trade: a Study of Competition, Monopoly and Oligopoly in a Changing Economy* (Cambridge University Press). I am much obliged to Mr. B. S. Yamey for help in the preparation of the present article.

[2] The system of statutory export monopolies is sometimes referred to as statutory marketing.

ing boards has resulted in a large measure of socialisation of peasant saving in British Africa, a result of their existence which has attracted little attention. These organisations prescribe the prices payable to the producers for their crops, and the prices, since they are set by a statutory monopoly, can be largely divorced from market values. Thus the marketing boards to a large extent prescribe the level of money incomes and the standard of living of the producers. By setting prices to producers of the chief cash crops, the boards greatly influence the direction of production. The boards can decide what grades of produce can be exported and need pay no regard to the acceptability of the product to overseas buyers. They have extensive powers of licensing over intermediaries and processors, who in West Africa, for instance, can operate only on the sufferance of the marketing boards. Further, the possession of very large funds gives some of these organisations a dominant strategic place in the economies in which they function.

The present article aims at analyzing the historical process that gave birth to the statutory monopolies.[3] Section I discusses the pre-1939 system of marketing in British West Africa and the criticisms directed at this system. Section II deals with the formation in wartime of various control boards, and with the activities of the Association of West African Merchants. Section III shows how, after 1945, these attitudes and influences merged with certain new pressures to promote the establishment of the marketing boards.

I

Until the recent war West African produce was exported by merchant firms, most of which also handled imported merchandise. The actual buying was done by employed clerks or by various categories of middlemen (local intermediaries). The clerks bought either direct from producers or from middlemen who had collected small parcels from producers or from other smaller intermediaries. The salaried employees of the firms often bought produce from substantial middlemen who had their own organisations of employees and submiddlemen often running parallel with those of the merchant firms. The middlemen were paid commissions by the firms;

[3] The arrangements in force in West Africa are described briefly in P. T. Bauer and F. W. Paish, "The Reduction of Fluctuations in the Incomes of Primary Producers," *Economic Journal*, LXII (Dec., 1952), 750–80. A review of the operations of the West African boards up to the end of 1951 is presented in P. T. Bauer, "Statistics of Statutory Marketing in West Africa, 1939–51," *Journal of the Royal Statistical Society*, Vol. 117 (1954, Part I).

moreover, they kept any differences between the prices they paid for produce and those they received from the firms. Clerks also sometimes received small commission payments as well as their salaries.

The prewar organisation of the marketing of West African exports was subjected to frequent criticism. The multiplicity of intermediaries and the large number of stages in the distributive chain were frequently criticised as being both unnecessarily wasteful and exploitative of the producers. Such complaints were, of course, familiar in discussions of the marketing of primary products. In West Africa the unusually large number of intermediaries lent superficial plausibility to these popular ideas. The criticisms were, however, generally misconceived. They disregarded certain special features of the West African economy, notably the low level of capital and the availability of a large and otherwise unoccupied or partly occupied labour force,[4] and the obvious possibilities open for the population of bypassing redundant traders. They also disregarded the importance of the large number of traders in these territories in widening the market for the produce of remote areas and in stimulating the intensive and extensive expansion of production.

Other criticisms referred to alleged abuses, such as false declarations by middlemen and clerks to their principals (overstating stocks on a falling market and understating them on a rising one), and to the use of incorrect weights. No doubt these practices were prevalent. But the results were not necessarily detrimental to the primary producers. The severe competition among middlemen and clerks generally ensured that any gains from these practices were not retained; the level of earnings and margins secured by these intermediaries were limited (then as now) by the intensity of competition and the ease of entry into the trade.

In general these criticisms were directed against the organisation, practices and methods of the West African export trade, rather than against the high degree of concentration among the merchants.[5] Yet this oligopolistic market situation brought about the frequent market-sharing agreements in the purchase of export crops, which for obvious reasons were very unpopular with the local population. In 1937 the announcement of a market-sharing agreement by the

[4] Cf. P. T. Bauer and B. S. Yamey, "Economic Progress and Occupational Distribution," *Economic Journal*, LXI (Dec., 1951), 741–55.

[5] The reasons for the high degree of concentration in the private sector of West African trade are discussed in P. T. Bauer, "Concentration in Tropical Trade: Some Aspects and Implications of Oligopoly," *Economica*, XX (Nov., 1953), 302–21.

export merchants prompted a strike by the cocoa farmers in the Gold Coast. As a result of this strike, generally known as the cocoa hold-up, the Nowell Commission was appointed to enquire into the immediate dispute and more generally into the cocoa-marketing system of West Africa.

The Report of the Nowell Commission[6] contained the most important and influential criticisms of the prewar system of marketing. Parts of the Report dealing with alleged abuses were reproduced in a British Government White Paper of 1946[7] in support of the proposals for establishing statutory export monopolies. These portions are still often quoted in criticism of the prewar organisation of the export trade and of the marketing methods in that sector of West African trade that remains private today.

The Nowell Commission accepted the contention of the export merchants that the unprofitability of their trade had forced them to institute the market-sharing agreement. The Commission's Report suggested that the export merchants had engaged in competition so intense that their offering prices had frequently been out of parity with world prices for cocoa. Their fierce rivalry had also led them to pay unduly high commissions to their agents who bought the cocoa from the primary producers. But, although the export merchants paid excessively high prices for cocoa, the primary producers received excessively low prices. The real culprits in the situation were the middlemen (who, like the primary producers, were Africans, whereas the export merchants were Europeans). These clerks, agents, and local intermediaries, the Report clearly implied, simultaneously victimized the cocoa growers and cheated the export merchants.

Although the Nowell Commission explicitly stated that its Report was based on careful enquiry, its conclusions will not stand examination. The evidence of alleged losses by the export merchants was misleading, largely because it failed to heed the fact that most of these same merchants were also importers of merchandise. The schedules of buying expenses on cocoa submitted by the merchants to the Commission, and used to calculate the local parity of world market prices, were debited with a substantial part of the overheads of the firms, and many cost items were rather liberally computed.

If the export trade in cocoa was so unremunerative, why did the firms remain in it? They were free to suspend their cocoa buying

[6] *Report of the Commission on the Marketing of West African Cocoa*, Cmd. 5845 (London, H.M.S.O., 1938).

[7] *Future Marketing of West African Cocoa*, Cmd. 6950 (1946).

whenever they chose to do so; their continued activity in this trade certainly suggests that it offered direct or indirect profits. The principal indirect advantage of produce buying was said to be its beneficial effect on the firms' trade in imported merchandise; many firms claimed that produce buying was essential to promote and support their merchandise trade.[8] But if this contention was valid, part of the profits on merchandise trade should have been credited against the expense of cocoa buying. Without this adjustment it was misleading to assess the profitability of cocoa buying purely on the basis of direct costs and receipts. There was good evidence, moreover, that some firms regarded cocoa buying as a profitable activity in itself, since several important firms both in the Gold Coast and in Nigeria were engaged solely in the export trade. Before the war, these purchased about one-third of all cocoa in the Gold Coast and about one-sixth in Nigeria. In fact, during and shortly after the deliberations of the Nowell Commission, several new firms entered or wished to enter cocoa buying, and one large prospective entrant had no interest in the import trade.

Firms occasionally suffered heavy capital losses as a result of maintaining speculative open positions on falling markets. In some cases these positions were maintained voluntarily and deliberately by the principals of the firm. But the open position was partly enforced upon the largest firm which represented such a large proportion of total cocoa purchases that it could not preserve an effectively covered position by selling forward regularly at the prices at which it bought. But even this firm could have avoided the risk by reducing its commitments, and it showed no inclination to do so.

Finally, even if cocoa buying had been unprofitable, this would not have been evidence of abuses or cause for public concern. It is quite normal, one would suppose, for a business to take losses at times.

The argument that both primary producers and export merchants were exploited by the middlemen was plainly invalid. These middlemen existed by the hundreds; they scrambled vigorously among themselves for business; entry into their ranks was very easy. Any advantage they secured from sharp practice was sure to be competed away in favor of either the producers or the buying firms. Had a middleman's charges for his services been excessive, he would have been bypassed by his customers in favour of another whose

[8] This argument certainly does not apply to all firms. There were many importers, including a substantial and prosperous European concern in the Gold Coast, not interested in the export trade.

charges were not excessive. The Nowell Commission's conclusions can only be counted as expressive of a vague and unanalysed hostility to middlemen.

Several specific points in the Nowell Report are likewise ill-taken. The Commission counted as an abuse, for instance, the purchase of cocoa crops in advance of the season by African moneylenders and middlemen (using in large part funds advanced to them by the export merchants) at fixed prices which allegedly allowed a large measure of profit. But this was merely a method of financing the harvesting and movement of a seasonal and expensive crop with the help of European capital. So far from being an abuse, it was (and still is) a valuable contribution of expatriate capital to the functioning of economies very short of local capital. Similarly, the multiplicity of middlemen was an inevitable and by no means undesirable feature of economies in which the export crops were produced by tens of thousands of small-scale and dispersed cultivators.

Thus the criticisms of the prewar marketing system in the Nowell Report disregarded essential features of the local economies and of the market situation. But, in spite of the crucial defects in the Commission's argument, it gained considerable currency and influence, partly no doubt because it appealed to attitudes which are widespread in contemporary society. The Nowell Report criticized the (seemingly) chaotic and unorganised system of marketing. It proposed the establishment of collective marketing agencies, and these had the appearance of simplicity, efficiency, and neatness.

The Nowell Report was published late in 1938. Before any action had been taken on it, the onset of war in 1939 presented a new situation and gave rise to new arrangements in the West African cocoa trade.

II

There were three principal objectives of the wartime control over West African exports: to deny supplies to the enemy and secure them for the Allies, particularly the United Kingdom; to prevent a collapse of the local price of cocoa; and to increase exports of groundnuts and of oil-palm produce after 1942. There were also three principal elements in the machinery of export control: licensing of exports to direct them to specific destinations; statutory monopoly in the handling of the principal exports; and a system of quotas in the purchase of export produce. Licensing of exports to direct them to specific destinations was an obvious necessity. Neither this aim of policy nor its administration differed substantially from

similar arrangements elsewhere, including the United Kingdom. Moreover, this aspect of the controls did not affect permanently the structure of the trade. Accordingly it will not be considered further in this article. On the other hand, the establishment of statutory monopoly in the export of agricultural produce and the operation of a quota system for purchasing, differed greatly from controls over similar commodities elsewhere in the British colonies, and have had far-reaching and lasting effects on the marketing of West African produce. We shall now consider the relation between the objectives of the controls and the machinery introduced to attain them.

At the outbreak of war a collapse of the local price of cocoa was widely feared as the result of difficulties of securing shipping space and of selling the crop in view of the disappearance of some important markets, primarily Germany. Such a collapse would have had serious social and political results and to avoid it the British government announced in November, 1939, that it would purchase through an official organisation at seasonally fixed prices all cocoa offered for sale in the Gold Coast and Nigeria. The organisation in charge was first the Cocoa Control Section of the Ministry of Food. From October, 1940, the responsible organisation became the West African Cocoa Control Board operating under the general control of the Colonial Office; and in 1942 this body was enlarged and renamed the West African Produce Control Board. These organisations had a statutory monopoly of export. The export merchants operating in these territories were appointed to act as agents in the purchase of the crop.

Although in the early war years somewhat different arrangements applied to the export of groundnuts and oil-palm produce, after the fall of the Far East in 1942 these products were also taken over by the West African Produce Control Board, again with a statutory monopoly of export.

The wartime establishment of statutory export monopolies in West Africa has come to be taken so much for granted that the grounds for it do not appear to have been examined. Yet it is clear that their introduction was not necessary. Monopoly of export was obviously not required for the support of the local price of cocoa; an official guarantee to act as residual buyer at a seasonally fixed price was all that was necessary.

A statutory export monopoly was equally unnecessary for the expansion of the supplies of groundnuts and oil-palm produce. Indeed the marketing arrangements and price policies of the West

African Produce Control Board were not calculated to increase supplies of these products. These products were sold exclusively to the Ministry of Food. The Ministry took over these commodities from the West African Produce Control Board at cost plus shipping charges to the United Kingdom, with cost counted as the prices paid to the primary producers. Both the prices paid by the Ministry of Food and the local producer prices were exceedingly low. Thus, after the marketing of groundnuts was taken over by the West African Produce Control Board, the prices paid by the Ministry for bulk supplies of West African groundnuts were far lower than were paid by the same organisation for bulk supplies of Indian groundnuts; until August, 1942, when the West African Produce Control Board took over this crop (which up to then was handled by export merchants), the prices paid for the supplies from India and West Africa were approximately the same.[9]

Not only was the establishment of statutory export monopolies unnecessary for the purposes which were stated to be the reason for their introduction, but the policies pursued by these organisations were irrelevant or disadvantageous to the attainment of the officially stated aims of policy. On cocoa transactions the Cocoa Control Board and the West African Produce Control Board began to accumulate profits almost from their inception by paying primary producers less than the sale proceeds received. This policy, although clearly quite irrelevant to the maintenance of the local price of cocoa which was stated to be the reason for the establishment of statutory marketing, was continued throughout the existence of these boards.

A system of quotas was the other principal feature of the wartime control over West African exports. Throughout the war and early postwar years the export merchants, whether acting as shippers or as buying agents on behalf of the government bodies, purchased the crops in accordance with official quotas based on prewar performances; and those who exceeded their share paid heavy penalties to those who had underbought, the settlement being administered by the government authorities.

It was repeatedly stated in various official publications that the

[9] Details are shown in my paper in the *Journal of the Royal Statistical Society*, Vol. 117 (1954, Part I). In 1947 the selling arrangements were altered and the Ministry of Food raised the prices it paid for oilseeds from West Africa. But these prices remained below those paid to other bulk suppliers, and, moreover, much of the price increase was withheld from the primary producers by the West African Produce Control Board which began to accumulate surpluses of funds on these products.

quota system in the West African export trade was essentially analogous to similar arrangements adopted elsewhere.[10] But the analogy fails. Quota systems were indeed widely adopted when it was necessary to share out either a limited market or limited supplies. In West Africa, however, there was an unlimited market for the export crops to which the quota system came to be applied.[11] So, far from being necessary, the system was paradoxical.

In the purchase of cocoa the paradox was evident from the inception of the quotas, since the introduction of the quota system was announced simultaneously with the British guarantee to purchase the entire crop at seasonally fixed prices, which ensured an unlimited market locally. In the purchase of groundnuts and oil-palm produce, the paradox of the quota system was particularly evident after 1942. An acute shortage of these products developed after the loss of Malaya and the Netherlands East Indies, and intensive production drives were undertaken in West Africa to stimulate the production of these crops. Extreme measures were also introduced to reduce local consumption, even if only by a few tons, and much hardship was inflicted on the local population and on individual traders to force every ton or donkey load of groundnuts into export. But the quota system was firmly retained, and buyers were fined if they exceeded their quotas. In a sense the paradoxical and unnecessary nature of the quotas was recognised in the system itself. The quotas placed no limit on aggregate purchases or shipments; they were simply shares in unspecified and indeed unlimited totals.

The quota system was in fact a statutory extension and enforcement of the prewar produce buying pools and syndicates of the West African merchants. These were market-sharing arrangements designed to protect gross and net profit margins of the merchants by restraining buying competition among them.[12] Participants who exceeded their agreed shares were required to make penalty payments to those whose purchases had fallen short of their agreed shares. The penalties were so calculated to deprive the payer as far as

[10] This was stated explicitly in another British Government White Paper, *Report on Cocoa Control in West Africa*, Cmd. 6554 (1944), para. 24.

[11] Similar products in other colonies (e.g., oil-palm produce in Malaya) were not subject to such arrangements.

[12] The profit margins were generally formally or informally agreed. In the absence of agreed fixed shares (quotas) among the participants, and of penalty payments for exceeding these, the margins were generally eroded by competitive buying. The agreed shares and the penalty payments were thus both a necessary condition for maintaining or increasing profit margins and a device for sharing out the fruits of the restraint of competition.

possible of all contributions made by the excess purchases to his overheads and profits.[13] This was precisely the method adopted in the administration of the government-enforced quota system, the provisions of which were practically identical with those of the prewar syndicates. The system was indeed introduced at the suggestion of the Association of West African Merchants (a trade association of the larger West African merchants with head offices in Europe), and the quotas were calculated and the system administered by those leading members of the Association who had participated in the prewar syndicates.

Quite apart from the paradox of the quota system in the face of an unlimited market, the acceptance by the authorities of this system was surprising for two further reasons. First, in cocoa and groundnut buying there were well-known and substantial competitors of the members of the Association of West African Merchants whose interests were at variance with these firms. Secondly, the syndicates were for obvious reasons unpopular with the local population, and the association of the authorities with such arrangements entailed serious political risks.

This was particularly evident in connection with the cocoa quotas, which were clearly a resumption in a different guise of the 1937 cocoa-buying agreement. This agreement was formally suspended on 28 April 1938, but it was not abandoned until 30 November 1939 on the introduction of the official quota system which had been announced on 17 November. Thus it was withdrawn finally only when official quotas took its place. As the provisions of the 1937 agreement had been made public, there was no difficulty in noticing the connection between the agreement and the quota system, since apart from minor matters of form, the provisions of the quota system were identical with those of the agreement (the calculation of penalties was absolutely identical), save only that these provisions now had statutory force and membership was necessary for participation in cocoa buying.

Neither the danger of a collapse of cocoa prices nor an increase in the exports of oil-palm produce and groundnuts required either

[13] The question arises why under such a system individual firms continued to purchase instead of curtailing or even discontinuing their activities and living on premium payments. The answer is complex and would require lengthy discussion which would be inappropriate here. The principal reasons appear to be the desire of the firms and of their local executives to maintain their position in the market, both for export produce and for imported merchandise; and the fear that producers who consistently failed to reach their agreed shares would have their quotas reduced.

a statutory monopoly or the introduction of export quotas; nor does the one system postulate the other. But although both the principal measures were unnecessary for, or indeed rather harmful to, the achievement of the two principal objectives (they could only affect adversely the supply of groundnuts and oil-palm produce, the extension of which was a prime aim of policy), there appears to have been a causal connection between the quota system and the establishment of statutory export monopoly.

The quota system seems to have been originated by the merchants chiefly in order to maintain their profit margins by restricting competition among themselves and by barring new entry. Export quotas (including quotas in the purchase for export) are easier to establish, to enforce, and to administer when there is only a single buyer, especially if that buyer is prepared to arrange a settlement between those who exceed their allotted shares and those who fall short of them. Thus contrary to the more usual attitude of export merchants, the West African merchants were inclined to favour statutory export monopolies, especially for commodities for which there was more than one buyer overseas. Thus the draft scheme for cocoa control submitted by the Association of West African Merchants to the Colonial Office in November, 1939, and approved by the authorities, provided both for a statutory export monopoly and for a quota system based on past performance. The merchants may have proposed a statutory monopoly because they did not realise that effective price support was practicable without it. But more probably their proposals were influenced at least partly by a realisation that a statutory monopoly would facilitate the operation of a quota system and increase its effectiveness, particularly in cocoa where there were a number of markets and an even greater number of buyers overseas.[14]

[14] The desire of the merchants for statutory export quotas to strengthen the operation of the market-sharing agreements was reflected in their evidence before the Nowell Commission. According to the Report: "A principal of one of the Agreement firms proposed the continuance of the system of export control used during the truce [the temporary suspension of the buying agreement during the enquiry into the dispute conducted by the Commission] for a period of, say, ten years. His view was that, under more stable conditions, it would be possible to rationalize the purchase of cocoa on the Coast 'by eliminating all forms of redundancy such as overlapping buying stations, as well as reducing supervisory and other costs, there would thus be savings in overheads,' the benefits which would be passed on automatically to the producer. He suggested that, with a Buying Agreement unsupported by quotas, there was the risk that shippers not parties to it, or new entrants to the trade, could upset by aggressive competition the member firms' efforts to regularize marketing. Export quotas would give the necessary stability." Nowell Report, para. 498.

There was also another connection between the quota system and the establishment of statutory marketing. Some senior government officers in West Africa realised, as they could not fail to realise, that the quota system was imposed and ultimately managed by the Association of West African Merchants. This greatly strengthened their desire for radical changes in marketing methods, notably the establishment of statutory export control to restrain the power of the large firms. This attitude was not altogether logical, since it was only the statutory controls enforced by the government authorities which gave the major firms the great powers they possessed; but this inconsistency was not fully perceived. In particular, two successive governors of Nigeria saw in this display of power an important argument for a radical change in marketing methods, without examining too closely what exactly provided the basis of the power.

The administrative experience of the West African Produce Control Board and its performance in the marketing of West African exports were repeatedly mentioned in important official publications in support of the decision to continue statutory marketing after the war. The basis for this view is far from clear. On its sales of groundnuts and oil-palm produce to the Ministry of Food, the West African Produce Control Board received far lower prices than were paid by the Ministry for other bulk supplies from sterling areas; and throughout the Control Board's existence its operations provided no foundation for the belief in the advantages of a strong selling position of statutory export monopolies; nor indeed was the Board supposed to exploit such a position. Again, it did not (nor was it asked to) reorganise the market structure of the export trade between the producer and the port of shipment.

In discussions and official statements at the time, three kinds of inference were drawn from the experience of the West African Produce Control Board. First, that it was very successful in the marketing of West African produce. Thus in West Africa the substantial surpluses of funds accumulated by the West African Produce Control Board were hailed as evidence of its successful trading operations. In fact these surpluses simply indicated the proportion of sale proceeds it decided to withhold from primary producers (which it was able to do as it enjoyed statutory export monopoly and was thus sole buyer); such surpluses were no indication of the Board's success in marketing the crops. Secondly, it was argued that its operations were evidence of the feasibility of organised marketing of peasant crops in backward areas. In fact it merely

shows that where there is a statutory export monopoly all exports will necessarily take place through the monopoly. Thirdly, it was inferred that the experience of wartime control demonstrated the feasibility, as well as the beneficial results, of price stabilisation. In fact what it did show was that a statutory export monopoly can prescribe producer prices more or less at any level (below the world level) it thinks desirable, and that it can fix prices at levels which would not be permitted by government if attempted by private organisations. Whatever the merits of the West African Produce Control Board as an instrument of wartime control, its experience cannot be adduced in support of the establishment of permanent statutory export monopolies (except as proof that even in a purely peasant economy a large measure of control is possible).

III

Although the operations of the West African Produce Control Board do not provide convincing arguments in support of statutory monopolies, its presence at the end of the war was a principal factor in the continuation of statutory marketing and the establishment of the marketing boards. Once an organisation such as a statutory export monopoly has been in existence for some years, strong tendencies for self-perpetuation come into play, since the members of the organisation gain an interest in its survival and expansion. They can muster outside support rather readily because they can point to their personal achievements in a way that is rarely possible under conditions of unorganised economic growth. The pressure for continuation of statutory export monopolies becomes practically irresistible when these inclinations and interests reinforce the preference of administrators for tidiness, for large-scale operations, and for administrative convenience (whether apparent or real). These features are deemed advantages of the operation of statutory monopolies, in contrast with a multiplicity of individual firms or traders.

These influences of self-perpetuation were clearly an important factor in the decision to continue statutory marketing in West Africa after the war. They are reflected in several passages in two British Government White Papers on cocoa marketing issued in 1944 and 1946 respectively.[15] But they can be seen particularly clearly in a

[15] *Report on Cocoa Control in West Africa 1939–1943 and Statement on Future Policy,* Cmd. 6554 (1944). *Statement on Future Marketing of West African Cocoa,* Cmd. 6950 (1946). These White Papers leaned heavily on the Nowell Report.

Nigerian Sessional Paper, *Statement of the Policy Proposed for the Future Marketing of Nigerian Oils, Oilseeds and Cotton,*[16] which announced the intention to extend the proposals of the Cocoa White Papers to other products. It stated that the proposals

> represent in fact the adaptation of marketing arrangements created and developed by the necessities of war to the purposes of peace. . . . Over a period of years an orderly structure, integrating the pre-war commercial system, has been built up. To take over that structure for maintenance, improvement and extension is, in the opinion of the Government, far wiser than to destroy it and so expose the whole economy and particularly the producers' economy, to the risks, uncertainties and price fluctuations which characterised the inter-war period.

It added further:

> In the event of the abandonment of the present arrangements, the disposal of the considerable sums which have already accumulated would present a problem of no little difficulty. In one way or another, since the return of a contribution made to those funds by each individual farmer is plainly impracticable and, even if practicable, would be of negligible benefit to the individual, these sums would have to be expended for the benefit of the producing communities. That by itself implies the establishment of representative boards to direct the process.

This argument implies that surpluses of funds can never be returned to producers. But the argument would apply with equal force to funds of the marketing boards, the establishment of which was proposed in the Sessional Paper. Indeed, it would apply much more to the marketing boards. The Sessional Paper was issued in 1948. The West African Produce Control Board had accumulated surpluses on oil-palm produce and groundnuts (the Sessional Paper did not deal with cocoa) only since March, 1947. Thus a distribution of its funds at the time by subsidizing producer prices (a possibility disregarded in the Sessional Paper) would have benefited very largely those primary producers at whose expense the funds had been accumulated. But the operations of the marketing boards would extend over years or decades; and drafts on reserves after years of surpluses would benefit groups of persons very different from those from whom the funds had been collected.

As foreshadowed in the Cocoa White Paper and the Nigerian Sessional Paper, the marketing of West African exports was taken over from the West African Produce Control Board by marketing boards which continued to enjoy their predecessor's statutory monopoly over exports. Cocoa was taken over by marketing boards in 1947, and the other products in 1949 when the West African Prod-

[16] Lagos, Government Printer, Sessional Paper No. 18 (1948).

uce Control Board was dissolved. The selling arrangements and the Administrative and executive personnel of the West African Produce Control Board in London were left substantially unchanged, as were the buying arrangements in Africa.

The presence of an established export monopoly (the West African Produce Control Board), and the criticisms of the prewar marketing arrangements were important factors in the establishment of the marketing boards. But they were much reinforced by certain vague attitudes which have been widely current over the last 10 or 15 years. Only brief discussion of these influences and ideas is required here, partly because they are fairly well-known, and partly also because some have already been examined elsewhere.[17]

It was widely but rather vaguely believed in the 1940's that statutory marketing would bring about stabilisation of producer prices, which was regarded as both practicable and desirable. This was the principal theme of the two important Cocoa White Papers which emphasized the undesirable features of the prewar marketing system of cocoa described in the Nowell Report and insisted particularly on the necessity of avoiding short-term price fluctuations.[18] In neither of the two White Papers, nor in any other official statement, was there any attempt to define stabilisation, or to distinguish between stabilisation of incomes and prices, or to refer to any of the various fundamental conceptual and practical problems and difficulties of stabilisation. Yet without a consideration of these ambiguities and problems, stabilisation becomes a meaningless omnibus term of no value as a guide to policy.

Another characteristic official attitude which runs through the second White Paper is a distinct dislike of traders and intermediaries, to whom the White Paper referred generally as middlemen speculators. Their allegedly nefarious activities were instanced as a major reason for drastic changes in marketing arrangements.[19]

Implicit in the White Papers and in other official statements on

[17] Cf. P. T. Bauer and F. W. Paish, in *Economic Journal*, LXII (Dec., 1952).

[18] Cf. *ibid.*, where several passages from the White Papers are quoted.

[19] The dislike and distrust of middlemen springs from various well-known (one might almost say traditional) motives and opinions, such as the belief that trading is unproductive and traders parasitic. More recently these views have come to be reinforced by administrative antipathy to traders because their activities and their mobility may for various reasons be inconvenient to administrators. Again, the presence of a large number and great variety of traders suggests an economy untidy and unorganised in appearance, and this offends the tidiness complex so widespread in recent years.

West African marketing is a belief in the irrelevance of prices, based on the view that market prices are of little significance and can be disregarded at least with impunity if not with advantage. In particular, it was often suggested in discussions on West African marketing that prices exert little or no influence either on current supply or on the maintenance and extension of capacity.[20] This view, though prevalent at the time of the establishment of the marketing boards, has probably been more important as a factor influencing the policies which came to be pursued.

Lastly, a less obvious but possibly more powerful and persuasive influence than those already mentioned may have also played a part in the establishment of statutory marketing in West Africa; and this influence may have operated through several of the other factors already listed. In recent years there has been widespread and influential advocacy of a large measure of socialisation of saving in underdeveloped countries and of a closer governmental control over peasant producers, partly as an instrument for the socialisation of saving and partly as an instrument to direct agricultural production. The desire to socialise peasant saving and agricultural investment, and to control and direct the production and distribution of cash crops, has probably been more important as a factor in shaping the policies actually pursued by the boards than as a factor in their establishment. But it was probably of some significance even at the beginning stage. This is suggested by such evidence as the extent of the powers of the boards, amounting to close control over the producers, processors, and traders of the products concerned and going far beyond the powers necessary for any price stabilisation, however defined. The extension of the authority of the boards to all agricultural exports, including products of trivial importance, also points in the same direction.[21]

Although the relevant importance of the different influences which brought about the establishment of statutory marketing of West African produce cannot be assessed closely, and may not be a matter of much significance, certain conclusions do emerge from the description and discussion in this paper.

It seems that chance occurrences and the interaction of *prima*

[20] Or that in so far as they do affect output the influence is on balance harmful.

[21] The socialisation of saving and of peasant production raises social and political issues of the widest significance. It would obviously be inappropriate to consider these here, even though they have in fact become major functions of organisations originally established to promote the interests of West African producers by means of price stabilisation.

facie quite unrelated phenomena were principal factors in the establishment of statutory marketing. Thus there seems to be little doubt that there was a clear connecting thread between the desire of the merchants for a quota system in the export trade and the introduction of statutory export monopolies. Again, the presence of an established organisation interacted with largely irrelevant criticisms of the prewar system, as well as with certain general attitudes and beliefs, to result in an extension and perpetuation of the wartime system of controls. All these factors in turn were reinforced by underlying and unobtrusive but powerful political beliefs.

The failure of the White Papers to discuss the meaning and problems of stabilisation suggests strongly that influences of the kind just listed, not a careful assessment of the possibilities of smoothing incomes of primary producers, have combined to bring about comprehensive statutory marketing in West Africa.

By Marvin J. Barloon
PROFESSOR OF ECONOMICS AT
WESTERN RESERVE UNIVERSITY

Institutional Foundations of Pricing Policy in the Steel Industry

The decision of the U. S. Supreme Court in the Cement Institute case (1948) had the effect of outlawing the system of basing point pricing used in the steel industry. But until 1953 the decision had relatively little effect on steel price competition because a strong sellers' market prevailed. In the future, as idle capacity continues, steel executives almost certainly will evolve a new method of securing uniform delivered prices. This objective for pricing policy is dictated by two broad sets of factors: the organizational structure of the industry (fewness of firms, an undifferentiated product, and inelastic demand), and the geographical distribution of the plants of the largest producers. This article analyzes the multiple basing point system used up to 1948, the temporary expedients employed from 1948 to 1954, and the probable pricing policies of the future.

Transitional Character of the Period, 1948 to 1954

On 7 June 1948, the Supreme Court of the United States by denying petitions for rehearing gave final approval to its decision in a case involving The Cement Institute and 74 member companies.[1] This decision had found that a basing point pricing plan in the cement industry had the effect of charging at any given consuming destination a delivered price identical as between producing mills. Further, the decision upheld the contention of the Federal Trade Commission that such a pricing plan constituted a method of unfair competition under the Federal Trade Commission Act.

The multiple basing point system of pricing had been a feature, not only of the cement industry, but of the iron and steel industry as well. The implications of the decision were thus clearly adverse to this pricing system as practiced in the iron and steel industry. Therefore, in July, 1948, the executives of the various companies in the latter industry reluctantly departed from the multiple basing point system of pricing and began to price their products f.o.b. the respective producing mills.

[1] *Federal Trade Commission v. The Cement Institute, et al.*, 333 U. S. 683 (1948).

Under this new system the steel was billed f.o.b. the producing mill and the consumer paid the actual freight by rail, truck, or waterway to destination. The new f.o.b. prices showed a strong tendency to uniformity as between various producing districts with two notable exceptions. These were the regions of the Pacific Coast and the Atlantic Coast in both of which f.o.b. quotations ran somewhat higher than in the continental interior. But, in the large producing region encompassing Pittsburgh, Chicago, and the intermediate districts between these two, uniformity tended to prevail. Under this system, therefore, identity of delivered prices was terminated. Delivered prices at any consuming destination varied, often exactly, with the freight differentials from the respective producing points.

Price competition within the iron and steel industry had functioned almost exclusively within the framework of the basing point system, single and multiple, for nearly 50 years. The f.o.b. system adopted in 1948 was therefore a radical change from long-established and almost universal practice and raised fundamental questions as to the future character of price competition within the industry.

Paradoxically, however, these questions were not answered at all clearly within the first six years following the change. For most of the 13-year period, 1941 through 1953, demand for iron and steel products utilized virtually the full effective capacity of the industry so that the normal forces making for competitive price reductions were largely dormant. The shift to the f.o.b. pricing of iron and steel fell squarely within this period. As a result, during the six years beginning with 1948 the effects of the new pricing system on competition within the iron and steel industry were not systematically manifested.

But, in 1954 the iron and steel industry appears to have entered at last into a new era of prolonged operation at lower percentages of capacity. The industry had been expanded after 1948 by an annual ingot capacity of over 30 million tons to a total exceeding 124 million. This represents a potential ingot output each year of 1,540 pounds per capita of the population of the United States and may be contrasted with only 1,190 pounds in 1930 after the expansion of the 1920's. By June, 1954, the industry had operated for seven months at less than 90 per cent of capacity. For five of the seven months, operations had fallen below 80 per cent and for two, below 70 per cent.

Operation below 90 per cent of capacity should probably be accepted as normal for the future. The experience of the first 40 years of the century may serve as a suitable norm for the years following 1954. For example, one of the most active periods of steel production was that of the 1920's. Yet the average annual percentage of ingot capacity utilized during the ten years ending in 1929 was only 71.6. In 1929 alone it attained 88.5 for the year. By contrast, for the six successive years, 1948 through 1953, the average was 92.3,[2] abnormally high by any prewar standard. The percentages of the 1920's are probably more representative of what may be expected after 1954.

Variations, of course, will occur, and it must be expected that at least for short periods of time the high percentages will return. Indeed, unexpected developments, especially in military demand may upset the outlook and restore the high percentages as a continuing condition. But, for the peacetime economy the lower percentages will probably be more usual and long continued. Therefore, the sustained competitive pressures to which f.o.b. mill pricing has been subjected during 1954 promise to become a relatively permanent condition. Under these pressures, pricing f.o.b. the mill is almost certain to assume new forms and probably to evolve in the course of time into an entirely new pricing structure.

The chief issue as to this eventual structure has to do with delivered prices. The first yieldings of the system of f.o.b. prices to the new competitive pressures took the form of sporadic freight absorption. It has been intended by officials of the Federal Trade Commission and hoped by critics of the basing point system that this freight absorption would remain "unsystematic," that is, that it would result in nonidentical delivered prices at any given consuming destination. This hope has been temporarily fulfilled. But, in the longer pull it is almost certainly destined to disappointment.

Diverse delivered prices at any stated consuming destination for any specified product steel are a highly unstable and transitional condition. Under continued competitive pressures the industry gravitates towards identical delivered prices as the surface of a body of water gravitates towards a precise level. This judgment implies nothing as to the personal predisposition of the industry's present executives. It is a totally impersonal phenomenon bearing no relationship to questions of guilt or innoncence under antitrust legislation. The relentless gravitation towards identical delivered

[2] *Steel Facts*, American Iron and Steel Institute (June, 1953).

prices is deeply rooted in the institutional structure of the industry.

It is the purpose of this article first to establish the persistence of this pressure towards identical delivered prices and then to consider what adaptation of the present pricing structure most conveniently yields to this pressure. This analysis will provide some forecast of the structure of iron and steel pricing now in prospect.

Competitive Significance of the Delivered Price

Two or more steel mills competing for an order from a single buyer must necessarily concentrate their attention on the price at the point of delivery. The buyer is concerned with the cost of the steel to him at the place where he is going to use it. Consider, for example, the position of a steel purchaser in a town in eastern Indiana who receives quotations from Supplier C in Chicago and from Supplier P in Pittsburgh. Both quote, let us say, \$4.15 per 100 pounds f.o.b. mill. If the freight from Pittsburgh is \$.45 while that from Chicago is only \$.30, the cost laid down at the consumer's plant in Indiana will be \$4.60 from Pittsburgh but only \$4.45 from Chicago. In so far as he is guided by price considerations, this buyer will unquestionably prefer to order from Chicago. The steel consumer is normally indifferent to f.o.b. prices as such. He chooses between competitive suppliers on the basis of the cost of the steel to him where he uses it. Competitive pressures are thus concentrated primarily on delivered prices.

Single Plant versus Multiplant Operation

The pricing executive of a steel company thus considers his quotations with reference to delivered prices. In doing this he may find himself in either of two situations. In the first, the alternative mills from which the purchaser may buy are owned and operated by competitors. This paper will try to show that in these circumstances the executive is ordinarily under a strong incentive to quote a delivered price exactly equal to that of the competing supplier. But, in the second situation, the alternative mills are owned and operated by his own company. We shall here seek to demonstrate that in this circumstance the incentive to set a delivered price exactly equal to that of the alternative mills is virtually compulsive. Now, the second situation occurs in the iron and steel industry with sufficient frequency to constitute a characteristic phase of the problem. Furthermore, the compulsion it exerts towards identity of de-

livered prices extends itself into the alternative situation, reinforcing the more moderate urge to meet a competitor's price exactly, to the point where the drive towards identity of delivered prices is almost compulsive under either situation.

Single Plant Operation: Pricing Above a Competitor

We shall first consider the problem when the alternative mills belong to competitors of the firm making the quotation. Excepting for the modern form of retaliation, this phase of steel pricing has been fully considered in present basing point literature and will therefore merely be summarized here. The effect is to demonstrate a strong motivation on the part of the individual pricing executive under usual conditions to quote neither above nor below the delivered quotations of his competitors but to meet their prices exactly.

In a buyers' market when the executive's firm has a great deal of idle steelmaking capacity, the executive is unlikely to quote a price higher than that of the lowest competing quotation because if he did he would have little chance of getting the business. Monopolistic competition is almost completely absent from the industry. Product steels and pig iron are sold on engineering specifications so that there is usually no particular distinction in product quality as between competing companies. Admittedly this is not universally true. Occasionally a customer may become convinced that the product of one company is peculiarly suited to his needs. Or, he may become irate at one supplier because of slow deliveries, billing errors, or defective product. But these are exceptional. Ordinarily a specified product steel from one company will be considered by the buyer as virtually the same as that from another.

In times of steel shortage, buyers will often pay a higher price to a steel company which has favored them with a delivery priority, and they may continue to do so even after the shortage has passed to maintain their favored status in the event of recurrence. But over a long period when shortages are rare, this motivation loses much of its effect. One of the leading merchant blast furnace operators has said that his customers will tolerate an adverse delivered price differential on pig iron of about $.25 per gross ton, but no more than this, excepting for very short periods of time. The same circumstance would apply to most other high-tonnage products. Considering that the pricing executive needs the order and that a price above the level of competitors' quotations would almost surely

lose it, he is not likely to quote above the lowest quotation of competing firms if he can help it.

Single Plant Operation: Pricing Below a Competitor

The executive's reason for not quoting a figure lower than competing quotations are more complicated. We must consider this first with respect to the large producers who represent altogether over 90 per cent of the industry's capacity. A lower quotation would very probably get the order. But, for a large producer, it would also probably precipitate a corresponding price reduction by all the other producers in the industry. Thus, for the duration of the buyers' market it would permanently bring down the price on all future orders for this class of product. The firm which had initiated the price decline would be left with the same share of the total market as before but at a lower price level. Furthermore, the total industry tonnage volume would not be expanded enough by the price reduction to increase dollar revenue at the lower price. So the subsequent dollar revenue of the firm which had initiated the price cut would be reduced. But, since tonnage produced at the lower price would be at least as high as before, aggregate costs would not be lowered. With dollar revenue reduced and costs remaining at least the same, long-run profits would be reduced. Therefore the executives of the individual large firm tend to resist the temptation to underbid the lowest competing quotations. To understand this thinking it is necessary to bear in mind two circumstances: first, that the industry is an oligopoly, and, secondly, that the demand for the industry product is inelastic.

The industry is an oligopoly. As of 1 January 1954, the three largest companies owned and operated 54.2 per cent of the industry's ingot capacity and the eight largest owned 76.2 per cent.[3] In a case where, as here, the vendor represents a large percentage of the total supply, his price reduction will not only get him the present order, but also may well precipitate an industry-wide drop in price.

The demand for the product of the industry is inelastic. Steel is generally an intermediate material used in combination with others. Thus its cost represents only a fragment of the final price of the product into which it is incorporated. We may take for example an automobile. By weight and cubic volume most of the vehicle consists of iron castings and rolled steel. Yet these ferrous materials will usually be billed by the iron and steel company to

[3] *Annual Capacities of Coke Ovens, Blast Furnaces and Steelmaking Furnaces as of January 1, 1954*, American Iron and Steel Institute.

the producer of the automobile at about \$250. The automobile may retail at \$2,000 or more. Thus a 20 per cent reduction in the cost of the iron and steel would permit a reduction of only 2½ per cent in the retail price of the vehicle. The same principle holds true of the steel used in farm and industrial machinery, in domestic appliances, in canned foods, and most other applications. There are some exceptions. Steel fencing for farm use is one. Another is oil-field pipe. But in the greatest tonnage of applications, steel is a complementary material. This makes for a general condition of demand inelasticity.

This inelasticity of demand is not relieved appreciably by the availability of competitive materials. Materials competitive with steel usually compete on a technological and service basis rather than on a price basis. Aluminum and the other nonferrous metals are examples. Electrical and thermal conductivity, relative tensile strength, workability, corrosion resistance, and other performance factors are the chief foci of competition between the rival metals. Most of them are already priced at levels five times or more that of carbon steels. Steel price reductions would therefore have little effect on substitution tonnages, and competitive materials do not appreciably moderate the inelasticity of demand for the industry product.

With respect to the individual large producer, therefore, in an oligopolistic industry the demand for the product of which is generally inelastic, the executives are usually subject to a strong motivation not to undercut competitors' prices in a buyers' market.

However, these considerations do not all apply to the small producers. There are some producers of steel whose output is only a fraction of 1 per cent of the industry product. Price reductions by these people would not precipitate a permanent industry-wide price decline. The reason the smaller producers are disinclined to bid below the lowest quotations of competitors is suggested by the word "retaliation." This consideration applies as well to the larger, although less vulnerable, producers and reinforces for them the considerations outlined above. But the conception of retaliation needs to be modified.

The Altered Form of "Retaliation"

In its classical form retaliation consisted of meeting a reduced price by further reductions, thus conducting a local price war on a restricted product line to penalize the producer who initiated the cut. In its application to a small local producer, a price-cutting

campaign on this model could be carried to the point of driving him out of business. Such retaliation may possibly occur in the iron and steel industry in the middle of the twentieth century, but it does not appear to be a characteristic reaction. A large firm which practiced such retaliation would be extremely vulnerable to charges of unfair competition under the antitrust laws.

Instead of retaliating against the price-cutter, the other and larger companies would simply become less co-operative in the many interfirm contractual relationships which characterize the steel industry. Most new developments in iron and steel are joint undertakings. For example, in the financing of the Labrador-Quebec ore development, several large iron and steel manufacturers had to combine their funds as stockholders in the new mining company. This is a complicated contractual arrangement calling for a considerable spirit of accommodation between the participating firms. The same type of arrangement has been necessary in the construction of some of the new taconite beneficiation establishments. Two or more firms sometimes pool their resources and engineering staffs in research on new products and new processes. The massive scale and serious risks attendant upon this sort of development usually make it an uneconomical venture for a single company and require a financial partnership in a specialized subsidiary devoted to the joint project.

There is much interdependence within the industry in procuring suitable raw materials. Virtually all of the really small producers are nonintegrated and have to buy semifinished steel as a raw material from the larger firms. But, even among the largest firms in the industry, there is a significant quantity of this sort of purchasing. In 1952, 8.3 per cent of steel shipments were sales by steel companies to steel companies.[4]

In the case of ferrous ore, two firms, the United States Steel Corporation and the National Steel Corporation, are financially associated with mining companies possessing much more abundant reserves in the Lake Superior District than do their competitors. Competing blast furnace operators thus have to buy ore from the affiliates of these two companies. And even an operator who has sufficient ore of his own does not ordinarily have it in just the right analysis for his furnaces and his products. He has to buy some analyses of ore from his competitors even though he has other analyses of his own for sale. The United States Steel Corporation

[4] *Annual Statistical Report, 1952*, American Iron and Steel Institute (New York, 1953), p. 66.

is the largest iron and steel producer in the Birmingham District. The Corporation also controls large supplies of Venezuela iron ore which can be brought into the Birmingham District economically. Native Birmingham ore is a high phosphorous ore and therefore cannot be used for certain important grades of pig iron. Thus, if the competitors of the United States Steel Corporation in the Birmingham District want to obtain low phosphorous Venezuela ore economically, they must buy it from the United States Steel Corporation.

In the most literal sense, there need be no retaliation against a price-cutter. Let us assume that in a buyers' market the price-cutter will be able to participate in new mining and research ventures and to buy all the semifinished steel and iron ore he wants. But, in each contract many details are involved. They have to do with such things as time of delivery, exactness of analysis, quantities of shipment, protective packaging, handling and storage charges, terms of payment and the like. Thus, the satisfactory conduct of interfirm contracts requires a vigorous spirit of service in the tradition that within the bounds of good business "the customer is always right."

But it is very difficult for even the best-spirited executive to extend his energies to the fullest in service to a competing firm which threatens to break the price structure of the industry. His instinct to sell and serve is corroded by resentment. For this reason the price-cutter has to take into account the general atmosphere of coldness which will almost certainly surround his future inquiries for materials and which will clog the adjustment of his complaints as to terms, quality, and delivery. There need be no intention to retaliate. Even an executive determined not to retaliate would, in his complicated role as vendor and servant, inadvertently penalize the price-cutter. Thus, the executive of the smaller firm, in his desire to preserve a harmonious relationship with his larger competitor-suppliers, tends to refrain from underbidding the lowest delivered price of the larger producers. There are few lone wolves in the iron and steel industry and the rugged individualist in matters of pricing tends to make many things unnecessarily difficult for himself.

Inasmuch as the producer has little or no motive to quote a higher delivered price than competitors and inasmuch as, whether large or small, he is subject to important influences which discourage the bidding of a lower price, he usually seeks to bid a price

identical with those of competing companies bidding from other locations.

Multiplant Operation: Competition within the Enterprise

A significant percentage of the producing capacity of the iron and steel industry belongs to firms which operate plants at more than one location. In this situation the pressure to quote identical delivered prices is virtually compulsive. The competition between two geographically separated mills belonging to the same company is reflected in the executive councils of the supplying firm rather than in the choice of the buyer. Under our assumption of chronic idle capacity at all mills, the executive will allot the production of a particular order to that mill where the capital equipment and labor force are most in need of maintained employment, providing that marginal costs there are not seriously excessive, and providing also that any freight absorption thereby occasioned is not more costly than continuance of the margin of idle capacity which the order would relieve. If the executive of a producing company were to present two delivered price quotations to a single buyer, one from each of two geographically separated producing mills, he would do so only to direct the order to the particular mill where he wished to have it processed. The other quotation would be set sufficiently higher to discourage the buyer from accepting it and would thus be merely a token quotation, issued possibly for legal purposes.[5] Thus only one delivered price would have economic significance. In some instances the executive would quote this price with respect to an order to be produced in one mill; in other instances he would quote the price with respect to an order to be produced in another mill; in still other instances, the executive would make the quotation without any decision as to which mill would produce the order, the latter decision awaiting actual receipt of the order. The effect in any case would be that of a delivered quotation identical as between the various mills operated at different locations by the same steel company.

This identity of delivered prices is even more firmly established by sales made under long-term contracts. In these instances,

[5] Dual quotations of this type were apparently made at times during 1953 and 1954. However, the separate mills operated by the one firm were non-competing with respect to certain of the products affected in that the quotations related to different physical dimensions of rolled steels. Furthermore, the situation was transitional between the preceding period of steel shortage and the developing steel surplus, and the dual quotations could not be allowed continuously to divert orders from mills where the firm's executives wished to produce them to other mills operated by the same firm.

prices and other terms of sale are determined in the contract, and orders for particular shipments are subsequently placed from time to time under these terms. If the iron and steel producer can meet the specifications from either of two or more mills, he may not decide at which location to process the order until each of the actual shipping orders is received. He may process one shipment for a particular destination in one mill and another shipment for that same destination in another mill. In any case the delivered price is as specified in the contract.

The identity of delivered prices as between various mills belonging to a single firm rests on the axiom that no iron and steel company will engage in price-cutting competition with itself. This is another way of saying that it will not quote prices in such a way as to leave the allotment of production orders between its own mills to the impersonal forces of the market place. Neither will the executives quote diverse delivered prices which might induce a buyer to designate as his source of supply a mill to which the supplying firm did not wish to allot the order. As between geographically separated mills operated by a single firm, the economically significant delivered price will therefore be identical.

The Extent of Multiplant Operation

The extent of multiplant operation in the iron and steel industry is indicated in Table 1. However, the table overstates the phenomenon in that it refers to ingot capacities rather than to finished product capacities. It should be borne in mind that because of differences in finishing facilities two or more ingot-producing shops often do not produce the same products for sale. They do, of course, compete in the sale of ingots to nonintegrated steel-finishing companies. And quite often they compete in the sale of slabs, billets, or other semifinished shapes. However, for the major tonnage of their production they may be equipped with finishing facilities designed for different groups of finished products and thus be noncompetitive. Nevertheless, in many instances various ingot-producing shops belonging to a single firm do produce the same finished products, especially with respect to the large-volume, general purpose products such as bars, plates, hot rolled sheets, and structural shapes. Table 1 is therefore an illuminating although incomplete representation of this feature of the industry's structure.

Ingot capacity of a particular plant is additionally significant in that it indicates potential capacity for the production of finished

products not turned out at present by that plant. The major capital investment in an integrated iron and steel plant is that necessary for the production, from the mineral raw materials, of pig iron, ingots, and semifinished shapes. Once this basic establishment has been constructed at a particular location, the further investment necessary to convert it to a particular type of finished steel is considerably smaller, varying, of course, with the finished product in question. Therefore, even though a particular ingot-producing plant may not finish a given type of steel at present, it always represents to independent producers in the area a form of potential competition which could be made effective rather quickly by the alteration of finishing capacity.

It will be noted in Table 1 that all of the eight largest integrated firms in the industry operate ingot-producing plants at more than one location with the exception of the Inland Steel Company. Two of the others, Jones & Laughlin Steel Corporation and National Steel Corporation, are confined to the area between Pittsburgh and Detroit, not a geographically broad distribution. The remaining five, however, operate steelmaking capacity in widely separated geographical districts. The United States Steel Corporation is almost ubiquitous. Of the eight districts, this firm is absent in only two of the smaller ones, and one of these two, Kentucky-Southern Ohio, is within the Chicago-Pittsburgh orbit. This leaves only one significant district from which U. S. Steel is absent as a producer, namely, Texas and the western South. The Bethlehem Steel Corporation remains the dominant producer on the Atlantic Coast. Its influence in the markets of the Pacific Coast is greater than its ingot capacity there would indicate because of coastal shipments through the Panama Canal from its Atlantic Coast plants. In addition, this firm penetrates the Midwest by virtue of its plants in the Buffalo district, which also have low-cost access to Atlantic Coast markets via the Mohawk Valley route. Two other firms, the Republic Steel Corporation and the Armco Steel Corporation, are each located in four of the districts, three of them in each case widely dispersed. These four companies, characterized by wide geographical dispersion of ingot-producing plants, represent 58.2 per cent of the total ingot capacity of the iron and steel industry.

Obviously competition between districts includes a strong and sometimes dominant element of competition between plants operated by the same firm. Such competition is, in fact, not competition at all, but represents instead administrative decision by the executives of the single multiplant company. If a buyer at any given

TABLE 1

ANNUAL INGOT CAPACITY
EIGHT LARGEST IRON AND STEEL PRODUCERS
BY PRODUCING DISTRICT
(Thousands of Net Tons)

Districts	U. S. Steel Corporation		Bethlehem Steel Corporation		Republic Steel Corporation		Jones & Laughlin Steel Corporation	
	1938	1954	1938	1954	1938	1954	1938	1954
1. Pittsburgh, Youngstown, Wheeling	14,068	13,954			3,931	4,787	4,112	4,862
2. Northern Illinois, Indiana, and Minnesota	10,323	13,560			482	1,232		
3. Lake Erie and Detroit	1,747	2,364	2,903	5,000	2,290	3,454		1,305
4. Kentucky and Southern Ohio								
5. Eastern New York, Eastern Pennsylvania, New Jersey, Maryland, Delaware, and New England	234	2,512	7,919	12,600				
6. Alabama, Georgia, Virginia, and Tennessee	2,018	3,831			577	789		
7. Granite City, Illinois, Missouri, Oklahoma, Texas								
8. California, Utah, Colorado, Oregon, and Washington	495	2,494	425	900				
U. S. Totals	28,885	38,715	11,247	18,500	7,280	10,262	4,112	6,167

consuming destination requests quotations he will receive quotations from two types of firm: the multiplant firm which can ship from either of more than one producing district, and the district independent which can ship from only one. With respect to the first it is obvious that the delivered price quotations will be identical as between plants of that firm. It is further evident from Table 1 that this situation is a frequent characteristic of steel pricing.

The Influence of the Multiplant Operator on the District Independent

We now turn to those firms which operate in only one producing district. These firms, also, are strongly affected by the multiplant structure of their competitors. Consider, for example, the position of the Inland Steel Company which can produce a given finished product only in the Chicago district. Let us assume that this firm

National Steel Corporation		Youngstown Sheet and Tube Company		Armco Steel Corporation		Inland Steel Company		Totals Eight Largest Companies		Totals All Companies	
1938	1954	1938	1954	1938	1954	1938	1954	1938	1954	1938	1954
1,613	2,600	2,419	2,844	672	499			26,815	29,546	32,597	39,541
		1,075	2,656			3,091	4,700	14,971	22,148	17,197	25,452
2,195	3,400							9,135	15,523	11,593	19,197
				1,618	2,567			1,618	2,567	2,594	4,807
					102			8,153	15,214	11,910	19,458
								2,595	4,620	2,762	5,072
				626	1,734			626	1,734	1,144	3,781
								920	3,394	2,017	7,022
3,808	6,000	3,494	5,500	2,916	4,902	3,091	4,700	64,833	94,746	81,814	124,330

SOURCE: Compiled from *Iron and Steel Works Directory of the United States and Canada, 1938*, American Iron and Steel Institute, and *Annual Capacities of Coke Ovens, Blast Furnaces and Steel Making Furnaces as of January 1, 1954*, American Iron and Steel Institute.

quotes a delivered price to a point in eastern Indiana of \$4.40. Let us assume, further, that the competitive quotation of firms operating in the Pittsburgh-Youngstown district is \$4.50. The competitive operators in the Pittsburgh-Youngstown district are the United States Steel Corporation, the Republic Steel Corporation, and the Youngstown Sheet and Tube Company. But, these are also the dominant Chicago producers. The executives of the Inland Steel Company have no way of knowing from which district their competitors contemplate shipment on any particular order, if, indeed, the competitors themselves have decided at the time of the quotation. Thus, the executives of the Inland Steel Company cannot make quotations to compete with Pittsburgh. They have to make quotations to compete with their competitors and without knowledge of the producing location from which these competitors contemplate shipment. For this reason a quotation for delivery in

Indiana of \$4.40 intended to undercut Pittsburgh by \$.10 as often as not would actually be undercutting by \$.10 a Chicago mill operated by one of the multiplant firms. In this way, interdistrict competition is much the same thing as competition within the Chicago district.

We may generalize from this example with respect to every large producing district within the United States. The independent firm operating within only one district is commonly in competition within its own market area with multiplant firms. These firms make quotations without designating publicly the producing mill. A competitive shipment to a consumer 50 miles from the independent's plant may come from the competitor's plant 500 miles away or from the local plant of that same competitor only 500 yards away. Thus the independent cannot engage in interdistrict price competition without simultaneously engaging in local price competition. He finds himself inadvertently a part of the multiplant structure which characterizes the larger firms in the industry.

Price Competition within a Producing District

The identity of the delivered price as between two competing mills at the same producing location is almost axiomatic. In the absence of secret bidding, such identity would prevail even under active price competition. But we have already noted the oligopolistic nature of the iron and steel industry, which strengthens this tendency still further. The prevalence of this identity of prices under the multiple basing point system was apparently accepted as inevitable even by the most vigorous critics of the system. Because of multiplant operation, all the forces of oligopoly and price leadership are present in each individual district. Furthermore, this intradistrict oligopoly structure has become more pronounced than formerly.

It is a matter of common knowledge that the share of the United States Steel Corporation in the total ingot capacity of the industry has declined since before World War II. However, the geographical dispersion of the Corporation's plants has increased. Table 2 represents this change over the 16-year period, 1938 to 1954. The United States Steel Corporation has yielded in its share of the total primarily in the Pittsburgh-Youngstown-Wheeling district and in the Chicago district, in each of which, however, it remains in 1954 the largest single producer by a wide margin. The firm has also yielded slightly in the intermediate district of Lake Erie and Detroit. But, in spite of its relative over-all decline, the firm has

appreciably gained position in the Far West and on the Atlantic Coast. It has remained, of course, the dominant producer in Alabama. Operations of the other leading companies have remained at least as dispersed as formerly, so that the total picture for each of the districts is one of a strong concentration of production and price leadership. In only two districts do the local independents operate more than 50 per cent of the ingot capacity, in the broad area of the western South and in the Far West, and in each case the margin by which their capacity exceeds 50 per cent is very small.

TABLE 2

Annual Ingot Capacity

Percentages of Largest Producers to Total Capacity in Each District

(Total Capacity in Each District = 100%)

	U. S. Steel Corporation		Three Largest Producers		Eight Largest Producers	
Districts	1938	1954	1938	1954	1938	1954
1. Pittsburgh, Youngstown, Wheeling	43.2	35.3	55.3	47.5	82.4	74.8
2. Northern Illinois, Indiana, and Minnesota	60.1	53.2	62.9	58.1	87.1	86.8
3. Lake Erie and Detroit	15.1	12.3	59.8	56.4	78.8	81.0
4. Kentucky and Southern Ohio	–	–	–	–	62.3	53.3
5. Eastern New York, Eastern Pennsylvania, New Jersey, Maryland, Delaware, and New England	2.0	12.9	68.5	77.9	68.5	78.3
6. Alabama, Georgia, Virginia, and Tennessee	73.0	75.5	93.9	91.1	93.9	91.1
7. Granite City, Illinois, Missouri, Oklahoma, Texas	–	–	–	–	54.7	45.8
8. California, Utah, Colorado, Oregon, and Washington	24.6	35.6	45.6	48.3	45.6	48.3
United States	35.3	31.1	57.9	54.2	79.3	76.2

Source: Compiled from *Iron and Steel Works Directory of the United States and Canada, 1938*, and from *Annual Capacities of Coke Ovens, Blast Furnaces and Steel-making Furnaces as of January 1, 1954*, American Iron and Steel Institute.

The incentives to refrain from undercutting a local competitor are even stronger than those discussed previously with respect to

interdistrict competition. In interdistrict competition a local independent has a distinct freight advantage in his own market area. Thus, if the distant competitor retaliates and a price war gets under way, the local independent has this freight differential as a permanent margin in his favor. Conversely, the distant producer has less of an incentive to engage in such a price war. He, in turn, has his own market near his mill with a corresponding freight advantage there, and is therefore not compelled in the interests of survival to engage in a distant conflict. But, as between producers at the same location no such moderating circumstances exist. The price-cutter initiates a mutually retaliatory process which, under conditions of chronic demand deficiency, can lead only to a bankruptcy or to a collusive treaty. Thus, as between producing mills at one location, the urge to adhere to identity of delivered price with respect to any stated destination is virtually irresistible.

Conclusion as to Identity of Delivered Prices

The institutional structure and geographical pattern of the iron and steel industry are such as to produce identical delivered prices as an almost necessary consequence. Competitive price administration must concentrate on the delivered price as the one that determines the buyer's choice of a supplier. The literature dealing with oligopoly in this and other industries has spelled out the influences deterring quotations below published levels in times of deficient demand. In the iron and steel industry these influences are all present, their strength being heightened by the absence of product differentiation and by the highly inelastic demand for the product. But in this industry the more definitive force is that of multiplant operation, of the geographical dispersion of plants of most of the leading companies. This feature of the industry reinforces the usual deterrents to price-cutting so as to render them virtually prohibitive. For this reason the new pricing system which will evolve from that instituted in 1948 will almost certainly gravitate towards identity of delivered prices. The structure of the industry renders the individual executive almost incapable of any other objective.

The Function of the Multiple Basing Point System

In order to understand the former loyalty of steel pricing executives to the multiple basing point system and to map out the probable direction of evolution of the newer system, it is necessary to observe the functioning of basing point pricing with respect to

delivered prices. The individual executive of a steel company seeks to meet his competitors' prices at the point of delivery. But in order to do this he has to *know* their prices at the point of delivery. In the absence of some kind of standard pricing formula this is exceedingly difficult to do. The multiple basing point system provided that formula.

Why is it so difficult to know a competitor's price quotation at point of delivery? This can be accomplished through a system of "posted" or published prices, the so-called "open-price" system. Parenthetically, it may be noted that published prices are evidence neither of collusion nor of the absence of collusion. Published prices are characteristic of some of the most highly competitive markets, for example, for such products as wheat, hides, cotton gray goods, and many others. Published prices are thus perfectly consistent with active competition. On the other hand, there is nothing to prevent the publication of prices under a collusive agreement between suppliers. The "open-price" system is therefore neutral on the question of collusion. In the iron and steel industry, price changes are regularly reported to trade journals and promptly made a matter of public knowledge.

We have noted that the focus of price competition is at the point of delivery. But, under the multiple basing point system the prices published were not delivered prices but prices at certain "basing points," usually important points of production. To determine a delivered price at the buyer's location it was necessary to add rail freight from the basing point nearest the point of delivery. But, inasmuch as the delivered price is the one that really counts, why did not the firms simply publish delivered prices?

The answer is very simple: there would have been too many of them. Virtually every city, town, and hamlet in the United States is at one time or another a point of delivery for some kind of steel. Furthermore, the industry produces a very large number of product classifications falling into several hundred price groups. Therefore, many thousands of delivered prices would have to be recalculated every time there was a general price change in the industry and many hundred every time there was a change on a few products. Furthermore, with respect to any one steel product price group, a particular small town would ordinarily be a highly infrequent destination, so that, for each small town in the country, prices would have to be recalculated several times over a period of years for each actual shipment to that point. The calculations would take a

long time and seriously delay publication. Furthermore, they would cost too much.

By contrast, the number of basing points for any one steel product did not ordinarily exceed 20 and was usually fewer. When prices were changed a new price for each product group could readily be determined for each basing point. On receipt of a price inquiry, rail freight from the nearest basing point to any given destination could be calculated quickly from published tariffs.

This system possessed one defect, namely, that the freight calculations would not always agree with those of competitors. For one thing, published rail tariffs are sometimes variable with routings of shipment. For another, consumers sometimes ordered steel shipped by truck, and rail and truck rates were not the same. To meet these irregularities, basing point pricing practice possessed two special features. Freight calculations from the ruling basing point were made from rail tariffs published by the American Iron and Steel Institute. Thereby the discrepancies which sometimes confused the tariffs published by the carriers were largely avoided. Trucking of steel products was discouraged by a special provision. The consumer paid the entire expense of trucking himself and received for this a credit equal to only 65 per cent of the rail freight from producing point to destination, offsetting somewhat the charge of rail freight from ruling basing point to destination, but usually having the net effect of making trucking somewhat costly.[6] Prior to July, 1948, therefore, practically all steel shipments moved by rail. The large increase in trucking of finished steel has occurred since that date.

Identity of delivered prices thus emerged from the multiple basing point system with a minimum of time and cost. Inasmuch as all producers, regardless of the location of their respective mills, used the same published base price at the basing point nearest the consumer and calculated rail freight from this same basing point from the same published tariffs, the delivered prices quoted were generally identical. From the published base prices, the price of any of several hundred steel product classifications to any one of several thousands of destinations in the country could be determined in a few minutes by a simple clerical operation. This was the essential function of the multiple basing point system. Whether it evolved spontaneously as a form of active competition or was deliberately devised by collusive agreement is another question.

[6] *Hearings before the Temporary National Economic Committee, Part 27* (Government Printing Office, Washington, 1940), p. 14,555.

The fact important to us here is that for any one producer it determined for any product and for any point in the United States the delivered price identical to that of competitors at a great saving of time and expense.

With this view of the functions of the multiple basing point system, some features of future steel pricing become clear. The future pricing method must determine the delivered price of competitors at any given destination with a high degree of reliability. It must make this determination as quickly as possible. And it must do it as cheaply as possible. Probably no new method will be as good as the multiple basing point system was in meeting these objectives. But some method must emerge which will be at least satisfactory in these respects.

Potential New Pricing Methods Suitable to the Industry's Structure

Of various possible methods, two appear to have the greatest promise. The one would be a direct adaptation of the f.o.b. mill pricing system which prevailed from 1948 to the end of 1953. Under this system all shipments were billed from the point of production and the consumer paid the actual freight. In a sellers' market, no effort had to be made to achieve identity of delivered prices. However, with the resumption of freight absorption, a mill shipping into the market area of another producer might bill f.o.b. the competing plant. Thus, the f.o.b. quotation of the distant mill would be treated as a base price and the freight differential would be absorbed. This would be a virtual resumption of the multiple basing point system with some alterations. One such alteration would be that every point of production would become a basing point. This would be in no way revolutionary. The multiple basing point system had been evolving in this direction prior to 1948. Another alteration would be the absence of the rail tariffs of the American Iron and Steel Institute and the absence of the trucking allowance.

The adaptation of the f.o.b. system into a new multiple basing point system would thus be subject to certain defects. It would be about as quick and as cheap as the old system, but it would be less reliable. It would also be subject to still a third and more serious defect. Such a system would be of very dubious legality. Freight absorption on this pattern would look too much like "systematic freight absorption," that is to say freight absorption so systematized as to achieve identical delivered prices. Inasmuch as "systematic freight absorption" is of doubtful legality and inas-

much as any other kind of freight absorption would fail to achieve the objective of identical delivered prices, it appears that the new system will probably have to dispense with freight absorption altogether. Therefore, f.o.b. pricing will probably come in time to be confined to shipments within the local market area of the producing mill.

Another possible method would be the straight quotation of delivered prices. The cumbersomeness of this method has been pointed out. However, a compromise system may be developed. One possible compromise would be the establishment of consuming regions and the publication of a delivered price for each region. These regions, of course, would be vastly more numerous than were the basing points of the multiple basing point system. But they would be much less numerous than the actual number of consuming destinations and might constitute a workable compromise. Another possible compromise would be the publication of delivered prices for the most important centers of consumption. Conceivably about 200 metropolitan areas might be chosen. A consumer located elsewhere might be charged at the price of the nearest metropolitan area plus freight from the point quoted. This, however, would involve a certain amount of phantom freight and of freight absorption, and, having the effect of identity of delivered quotations, would be legally suspect. While more cumbersome than the multiple basing point system, it might prove workable as the clerical staffs of the various firms became familiar with it.

Conclusion as to Future Pricing Practice in the Iron and Steel Industry

We may conclude that the ultimate pricing pattern of the industry will probably turn out to be a combination of these practices. For shipments within the local market area of a mill, f.o.b. pricing may well continue. For more distant shipments, delivered prices may be quoted and published. For large centers of consumption delivered prices may be quoted specifically as of those destinations. For smaller centers, regional, district, or county prices may be published. Such a system would avoid both phantom freight and freight absorption altogether. But, it would achieve a reliable identity of delivered prices. It would inevitably be cumbersome. On this score the decision of the Supreme Court leaves no choice.

One final consequence may be anticipated. Inasmuch as it appears inevitable that the new pricing system will be more unwieldy than was the multiple basing point system, price changes in the

iron and steel industry will probably be made less frequently. Even under multiple basing point pricing, every change was an occasion for errors of interpretation and calculation. Errors break the identity of delivered prices. They open the door to deliberate price-cutting masked as erroneous calculation. For this reason price changes occurred only when supply-demand relationships had clearly demanded them for some time. Because every change in price generated a short period of uncertainty as to the quotation at any point of delivery, they were instituted no more frequently than necessary.

Under any alternative to the multiple basing point system the danger of errors is therefore increased and whenever prices are changed the period is prolonged during which inadvertent price-cutting occurs and local price skirmishes disturb the market. Consequently, the executives in the industry will be inclined to let well enough alone whenever price-cutting has been brought under control rather than again to set in motion the cumbersome recalculation of a system of delivered prices. Iron and steel prices in the future will therefore probably exhibit even more stability than in the past.

The executives of the iron and steel industry thus have the task of evolving noncollusively a new pattern of pricing practice which will lead to identical delivered prices without too cumbersome a structure of quotations and all within confines which have become legally more constricted than at any time in the past. That they will do so there can be little doubt. The organizational structure of their industry and its geographical distribution leave them little choice.

By Lucile Kane

CURATOR OF MANUSCRIPTS AT THE MINNESOTA HISTORICAL SOCIETY

Selling Cut-Over Lands in Wisconsin[1]

In 1906, nine important lumber firms set up a jointly owned company to sell their cut-over lands in northwestern Wisconsin to potential farmers. The land company learned, from its experience with various classes of buyers, that the most reliable was the owner-occupant who had made a substantial down payment. Even when a settler fell behind in his payments, the company did not foreclose unless the debtor left his land or was obviously making no effort to pay. Competition from other land companies tended to lower the price of land and also to inflate sales costs, but at its dissolution in 1940 the company showed a moderate profit. Thus the policy adopted by the nine lumber firms, of holding the cut-overs for sale to settlers rather than letting the land revert to the state for taxes, found a commercial justification.

When the big lumber companies moved out of Michigan, Minnesota, and Wisconsin to the fresh forests of the West and South, they could dismantle their mills and take up their railroads, but they could not move the land. A wasteland of stumps, brush, and patches of trees covered the land that had once supported the magnificent northern forest. At the close of the nineteenth century when the greater part of this forest had been harvested, the land owners, state governments, and inhabitants of the region sought a future use for the denuded land. Since the American experience had been one of planting crops after forest removal, inevitably the promotion of agricultural settlement received first attention.

Before the necessity of disposing of stump land was upon the lumber companies, they thought little about the agricultural potential of the area. Until the 1880's, most recorded opinion was negative.[2] Even in 1888, when the interest of land buyers had already turned to the cut-overs, the *Mississippi Valley Lumberman* remarked that "One of the curious phases which has developed is a demand for pine lands which have been stripped of their pine."[3]

[1] Part of the research for this article was done while the author was on the staff of the Forest Products History Foundation. This article was read as a paper at the Mississippi Valley Historical Association meeting in 1954.

[2] See, for example, W. D. Washburn, Surveyor General, St. Paul, to J. M. Edmunds, Commissioner of the General Land Office, 25 Sept. 1862, Surveyor General's Records, Minnesota State Archives, St. Paul; *New York Daily Tribune*, 30 Sept. 1865; and *Harper's New Monthly Magazine*, XXXVI, 418.

[3] *Mississippi Valley Lumberman*, XIV (31 Aug. 1888), 1.

Before the close of the century, the industry had moved so fast toward a positive attitude that this same journal seemed to take the agricultural future of the area for granted. In 1898, in a burst of enthusiasm, it predicted that during the year "all available farming lands now in a wild state will pass out of the hands of the lumber companies into the possession of new settlers." [4]

The lumber industry was not alone in advocating that the landless city dweller, the farm tenant, and the immigrant come to the cut-overs, new land of opportunity. The combined resources of dozens of land companies, railroads, newspapers, and official state agencies were used to promote settlement. The diminishing amount of free or cheap land in the West and the success of agriculture in the most fertile parts of the cut-overs encouraged many people to believe or to hope that the stump land really constituted another agricultural frontier in the United States. Although land clearing was conceded to be a major deterrent to settlement, contemporary opinion held that a substantial part of the cut-overs could be converted into farms if enough farmers could be induced to make the effort.[5]

It was in the period of optimism between 1890 and 1920 that the lumber companies made their major effort to dispose of stump land. Three courses were open to them: to sell their land in wholesale lots to land dealers, to try to sell the lands directly to settlers, or to stop further expense on the land by letting it revert to the government for taxes.

Among the lumber firms exploring ways to sell cut-overs at the turn of the century were nine companies which together held almost 500,000 acres in 17 northwestern Wisconsin counties.[6] In 1906, these companies decided to pool their lands in a new organization, the American Immigration Company. By far the largest landholder in the group was the Mississippi River Logging Company, which turned into the pool 142,575.8 acres. The other land owners were the Chippewa Lumber and Boom Company, the

[4] *Ibid.*, XXIX (11 Feb. 1898), 9. For reports on meetings of lumbermen and predictions on agricultural possibilities of the cut-overs, see the same journal: XXVI (22 Nov. 1895), 10; XXVIII (3 Dec. 1897), 9; XXX (10 Nov. 1899), 13; XXX (22 Dec. 1899), 1.

[5] Not until the 1920's was the groundwork laid for land classification and later reforestation of areas better suited to that purpose than to agriculture. See Arlan C. Helgeson, "The Promotion of Agricultural Settlement in Northern Wisconsin" (Unpublished Ph.D. dissertation, University of Wisconsin, 1951), p. 291.

[6] The 17 counties in which the company held the land and the acreages in

Northwestern Lumber Company, the Laird, Norton Company, the Nebagamon Lumber Company, C. Lamb and Sons, Weyerhaeuser and Rutledge, the North Wisconsin Lumber Company, the Potlatch Timber Company, and the Chippewa Farm Land Company.[7]

The plan was simple. The land deeded to the American Immigration Company was classified into five grades evaluated at $7.00, $5.50, $4.00, $3.00, and $2.00 per acre, respectively. Each firm turning in land paid into the company in cash 10 per cent of the valuation of its land set by appraisal (to provide working capital) and received in stock 20 per cent of the valuation.[8] In 1906, the lands were evaluated at $1,635,260, calling for the issuance of 3,270 shares of stock.[9] Additional lands were turned in from time to time, bringing the total acreage to 481,922.[10]

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each county have been computed by the author from Journal A, 31 Dec. 1906, American Immigration Company Papers, Minnesota Historical Society. (Hereafter called the A I C Papers.) Here are the acreages by county:

Ashland	16,465	Polk	18,017
Barron	680	Rusk	35,305
Bayfield	53,035	Sawyer	142,236
Burnett	1,383	Taylor	11,247
Chippewa	12,472	Vilas	2,460
Clark	10,958	Washburn	6,075
Eau Claire	80	Douglas	34,883
Oneida	2,209	Iron	10,260
Price	76,503		

Since the company later acquired more land, the total acreage was brought up to 481,922. The statement on total acreage was found in the final statement of the company, 31 Dec. 1939. The statement is in the possession of Weyerhaeuser and Company.

[7] The acreage turned in by each company was computed from entries in Journal A, 31 Dec. 1906, A I C Papers:

Mississippi River Logging Company	142,575.80
Weyerhaeuser & Rutledge	28,076.65
North Wisconsin Lumber Company	44,780.08
Potlatch Timber Company, Ltd.	22,820.28
Chippewa Lumber & Boom Company	95,205.92
Northwestern Lumber Company	31,681.48
Laird, Norton Company	17,570.89
Nebagamon Lumber Company	34,655.39
Chippewa Farm Land Company	10,061.24
C. Lamb & Sons	3,865.13
American Colonization Company	1,857.60

[8] Minute Book, Meeting of Stockholders, 10 July 1906, 24 July 1906, A I C Papers. The valuation placed on the land in 1906 and the grades established in 1906 were not permanent. There were many changes, but these were the valuations that served as the basis for the issuance of capital stock.

[9] Journal A, 31 Dec. 1906, A I C Papers. Stock Ledger, A I C Papers.

[10] Final statement of the company(31 Dec. 1939, in possession of Weyerhaeuser and Company. The largest number of shares issued was 4,024, although the nominal capitalization of the company was $500,000. Stock Ledger and Articles of Incorporation, A I C Papers.

Among the officers and members of the board of directors were names long familiar in the lumber industry: William Irvine, Frederick E. Weyerhaeuser, James T. Barber, and Fred S. Bell. The active management of the company, however, was in the hands of the secretary, who had his office in Chippewa Falls until 1929, and after that date in Hayward. As the business of the company grew smaller, particularly after 1920, most of the direction of the business fell to the secretary. Companies originally holding the capital stock were dissolved or moved on to other parts of the country; and less attention was given to a small firm looking forward only to the day when the last acre of cut-over land could be written off the books.[11]

Although the title of the company bore the word "Immigration," little work was done in bringing immigrants from Europe to the Wisconsin cut-overs. A short-lived associate, the American Colonization Company, did send agents abroad, particularly to Finland, Germany, and Russia. The competition of Canadian agents, the slow progress of company representatives, and the high cost of maintaining the sales organization resulted in its dissolution in 1907. Thereafter, the American Immigration Company, which took over the lands of the Colonization Company, confined itself to the business of selling land.[12]

Like its competitors, the American Immigration Company found that selling stump land was hard work. Since there was no spontaneous rush to northern Wisconsin when it was opened for agricultural settlement, the company settled down to the stern business of inducing buyers to come. It issued pamphlets and posters, advertised in newspapers and specialty journals, and participated in co-operative advertising ventures. The largest amount of advertising was done between 1906 and 1916, when from $3,000 to $11,000 were spent annually. During its life, the company spent in advertising $62,817.06, or approximately 14 cents an acre for every acre of land it sold.[13]

Most of the advertising was directed toward competing areas in Kansas, Nebraska, the Dakotas, Montana, Minnesota, and southern

[11] Minute Book, Meetings of Directors, 1906–40. For an example of the attitude of officers towards the company, see C. D. Tearse, Winona, to A I C, 2 Feb. 1938, A I C Papers.

[12] Minute Book, Meetings of Directors, 10 Aug. 1907; Minute Book, Meetings of Stockholders, 16 May 1906; A I C Papers. F. Von Pilis, Berlin, to the American Colonization Company, 15 June 1907, Laird, Norton Papers, in possession of the company, Winona, Minnesota.

[13] Computation made by the author from the annual statements of advertising costs in Journals A, B, C, and D (1906–40), A I C Papers.

Wisconsin, and toward states like Iowa, Illinois, and Indiana, where prices were too high for the landless. Immigration ports like New York were not neglected. And always the copy writers of the A I C, fearing lest they lose potential customers to the opposing lure of Canada, emphasized the wonders of Wisconsin. Blue skies, sparkling lakes, fish, game, and abundant crops – and above all, the independence of the landowner – were described in the many numbers of a pamphlet series.[14]

In tune with the optimism of the time, the pamphlets had such titles as "Land of Plenty," and "The Golden Opportunity." One publication, "The Round Lake Country," is typical. It has 17 pages, a map of the area, and many illustrations of products grown on the land. Considering that the pamphlet was published about 1916, it seems remarkably conservative in its promises. The landscape, the pamphlet reads, is beautiful, "Except where the desolation of the magnificent forests of pine by the lumbermen or where the more ruinous fires have left their unsightly trails of slashings and charred stumps. . . ." Also mentioned is the presence of rough, wet, and sandy soil.[15]

The company reached additional audiences through literature issued by the Wisconsin Advancement Association, a voluntary organization devoted to the promotion of the cut-overs.[16] Comments on A I C lands were also made in the advertising of other companies. For example, the Polish-American Colonization Company carried descriptions of the lands in folders distributed in the United States and Europe. In these co-operative arrangements, the A I C paid either by the number of acres advertised or by individual advertisement.[17]

The company used a variety of methods in selling land. Up to 1917, a general agent working out of the Chippewa Falls office had charge of the field work. He traveled through several states selling land and engaging representatives for the company at locations where there were good prospects for sales. When exhibition trains

[14] List of Newspapers Carrying American Immigration Company Advertising, 1 May 1922; *Minneapolis Journal* to William Irvine, 14 March 1918; printed advertisement, undated; F. W. Iddings to the (Milwaukee) *Sentinel*, 12 Feb. 1916, all in A I C Papers.

[15] "The Round Lake Country," Vol. 2, No. 7, of *The Upper Wisconsin* (published by A I C, Chippewa Falls, n.d.), pp. 2, 13, 17. The pamphlet is in the A I C Papers.

[16] A. D. Campbell, Wisconsin Advancement Association, to Members, 29 Jan. 1916, A I C Papers.

[17] Standard Investments & Securities Company to A I C, 21 Feb. 1917; pamphlet of the Polish-American Colonization Company (n.d.), A I C Papers.

with northern Wisconsin produce toured areas where the company hoped to find buyers, the agent went on ahead of the train to distribute literature and engage men to find buyers among the crowds that came to see the exhibits. In one instance, he obtained from the Omaha Railroad a list of farm renters with families. Since the list was compiled by station agents all along the Omaha road, it was considered an advertising coup.[18]

The company did everything it could to make it easy for agents to sell land. Representatives located at Hayward and Rice Lake met the agents and prospects at the train to help show land. At company lodges, a land seeker could get room and board for $1.00 a day. If he purchased land, part of his railroad fare was refunded.[19]

Despite the encouragement of the company, agents had a good deal of trouble in selling land. The country was swarming with agents to whom any homeseeker was fair game. Trains leading into the cut-over region were frequented by land sellers looking for buyers. So many potential buyers of American Immigration Company land were pirated by other land dealers after they had been brought into the country that agents were warned to stay close to the prospect. The general agent of the company told a familiar story of the trials of a land agent when he wrote: "Borsenius says his bunch broke away from him. Thinks he might be able to round up a part of them. . . ."[20]

If the company agent could start prospects on their way to northern Wisconsin, bring them safely through the ambushes of competitors, and sell land to them, he could make a good commission. The usual commission was $2.00 an acre, receivable when the buyer made a $2.00 down payment. Percentage commissions, usually 5 per cent, were paid on sales over 640 acres. Agents and other land companies sometimes preferred to take an option and then make as much profit as they could by securing sales commitments before they actually bought the land. When only poor or inaccessible lands were left, agents demanded higher commissions. By 1939, the company was paying its agents 15 per cent.[21]

[18] F. W. Iddings to A I C, 15 Jan. 1916, 11 March 1916, 3 Oct. 1916, A I C Papers.

[19] F. W. Iddings, Circular Letter to Solicitors, 23 Sept. 1916, "The Round Lake Country," inside the back cover, A I C Papers.

[20] A I C to E. E. Waterman, 25 Oct. 1916; F. W. Iddings to A I C, 25 Jan. 1916, A I C Papers.

[21] A I C to L. R. Stafford, undated; Mennes & Story to A I C, 17 Feb. 1916; A I C to William D. Stout, 15 Jan. 1916; A I C to William H. Brown, 11 Jan. 1919; De Witt Van Ostrand to Land Commissioner, Soo Road, 8 March 1917;

Between 1906 and 1940, the company paid $214,558.50 in commissions. Agents received the greater part of this sum between 1906 and 1920, when as much as $20,000 were paid in one year. On the total acreage sold by the company, the commission amounted to around 49 cents an acre.[22]

Although the company tried to get reliable men as agents, the desire for commissions, the strenuous competition, and general optimism about the land undoubtedly led to misrepresentation. To protect itself against being made a party to misrepresentation, the company inserted in its application for land purchase a clause stating that the buyer must rely on his own knowledge of the land. The company further protected itself by saying that it was not bound by the acts of its sales solicitors.[23]

The company preferred retailing land to actual settlers rather than selling to land dealers who resold it. The A I C received many requests for lots as large as 500,000 acres, more land than the company owned. The purchasers usually wanted to make a small down payment with the expectation that they could resell the land before additional payments came due. When buyers failed to keep up the payments, the company either had to reclaim the land or settle at large discounts. By 1917, the company had concluded that "all schemes of disposing of cut over lands except to the actual buyer have not proven successful with this company. We find the man who stays on the land is the man who has put in sufficient of his own cash to make him want to see it through." [24]

Somewhere between the colonizer who wanted 50,000 acres to resell and the settler who wanted 40 acres to farm was the stock man. During World War I, the cut-overs were boomed as grazing lands that would rival the Far West. Small sheepmen who had sold out to larger ranchers in Montana were ready to try their luck on a few hundred or a few thousand acres in northern Wisconsin. Since these land buyers usually arrived with money in their pockets, they were cordially received. The hope that sheep and angora goats would prosper in the cut-overs died with almost every other hope, but not before the company had sold a number of ranches.[25]

A I C to the Forward Land Company, 7 Jan. 1916; A I C to George R. Little, 18 March 1939, A I C Papers.

[22] Computation made from the annual statements in Journals A, B, C, and D (1906–40), A I C Papers.

[23] Application for the purchase of land, 15 Aug. 1916, A I C Papers.

[24] C. I. Delaney, A I C, to Alfred Ryckman, 16 May 1922; A I C to Ralph S. Crowl, 23 June 1917, A I C Papers.

[25] F. W. Iddings to A I C, 17 June 1916; A I C to Mohland & Kuhlemeier, 30 Jan. 1919, A I C Papers.

An analysis of the 1,998 land transactions through which the company sold its land shows that 78 per cent of the transactions were for lots of 100 acres or less, but these purchasers bought only 22 per cent of the land. Fifty per cent of the land was bought in lots of over 1,000 acres by only 2 per cent of the purchasers. Since many of the large purchasers defaulted, the percentage does not represent the whole picture.[26]

Although the company favored actual settlers, it did not go to the lengths that some of its competitors did to get the man on the land and keep him there. Some land companies had concluded after years of experience that the twentieth-century pioneer did not have the spirit of his forebears. To make his way easier, the companies built houses and barns, cleared a few acres of land, put up fences, built roads, and furnished seed and farm implements to carry the farmer through his first year. At least two firms built model towns, conducted flower growing contests, and wrote cheering letters to keep up the flagging spirits of the men blasting stumps and carrying rocks. The Public Service Land Company, organizer of a model community at Stark, Wisconsin, wrote: "We do not at all believe in the old method of attempted land settling by just persuading people to work up a home in the wilderness, and we hold it a crime to take people's money for such purposes." By comparison, the American Immigration Company seemed like a corporation without a soul, or at least a corporation without an inspired correspondence department.[27]

The American Immigration Company always maintained that it was not in the real estate business, that it was simply trying to sell its cut-over lands. It made no extravagant claims in its literature, tried to control its agents, and abstained from paternalism toward the land buyer. When a man bought land from the company, he usually paid one-fourth down and the balance in equal install-

[26] Computation made by the author from Journals A, B, C, and D (1906–40), A I C Papers.

Acres	Percentage of Total Transactions	Percentage of Total Acreage
1–60	52	10
61–100	26	12
101–199	13	11
200–499	5	9
500–999	2	8
1,000–15,000	2	50

[27] The Public Service Land Company to A I C, 8 Nov. 1916, W. C. Van Gilder to A I C, 16 Oct. 1918; A I C to T. J. Humbird, 12 Jan. 1923, A I C Papers.

ments. In an analysis of the contracts entered into between 1906 and 1911, it was found that 90 per cent of the buyers who completed their payments did so within five years. Only one-half per cent took as much as nine years to pay.[28]

Although the company made no public statements about aids to settlers, it offered concessions to keep the farmer on his farm. Since reselling land from forfeited contracts was expensive, it was better business to help the settler than to take back the land. Dozens of farmers wrote letters explaining why they could not meet their payments. They blamed the company because the land was poor, because the railroad didn't build a promised branch line, and because the governments didn't build roads and schools. Others told of personal misfortunes — crop failure, illness, death, fires. One eloquent letter can speak for hundreds: "I know I haven stuck to my Promist But I will state the trouble. . . . I loose my wife and spand of horses right in one shot. It set me back. . . ."[29]

The replies to these troubled messages were brief but kind. In letters that often began "Sorry to hear of your trouble," the company tried to help the settler. It deferred payments, paid taxes, contributed money for roads, and advanced money to tide the settler over until he could get a new start. Only when a farmer left his land or failed to make an effort to meet payments were foreclosures ordered. Even then the company urged the settler to find a buyer for his land before foreclosure in order to get back the money he had already paid and to ease the difficult job of resale for the company. There were always many unpaid contracts on the books. At the end of its life, the company made compromises with settlers it had carried for years, in order to realize something out of its investment.[30]

Buyers paid a wide variety of prices for land, as much as $30 an acre and as little as $1.00. The average price for all lands sold from 1906 to 1940 was $7.58.[31] Lands sold before 1926 were usually above this average, and those sold after that date were below it.[32] The company claimed that its prices were lower than those

[28] Computation made by the author from the Contract Book, A I C Papers.

[29] For samples of farmers' letters, see Thomas Burns to A I C, 25 Feb. 1918; T. E. Majander to A I C, 21 Oct. 1916, A I C Papers.

[30] A I C to W. B. Louthan, 28 July 1917; A I C to C. Lamb & Sons, 30 Jan. 1939; A I C to William Irvine, 9 Sept. 1918; Memorandum by Thomas McClaine, 25 Jan. 1916; A I C to William Stockman, 24 Jan. 1916; A I C to W. Amens, 6 Jan. 1917, A I C Papers.

[31] Computations made from the annual reports, A I C. The reports are in the possession of Weyerhaeuser and Company.

[32] The yearly averages, which follow, were computed by Charles J.

charged by its competitors because its objective was to get rid of the lands rather than to make a large profit.[33] There are no comparative figures which can be used to test this statement. The alleged failure of the A I C to share in the increment in land values between 1910 and 1920 could be due to the fact that the best lands were sold first and that, therefore, the remaining lands would command less than the average estimated value of all the lands in the 17 counties.[34]

McGough, Weyerhaeuser and Company, from the annual reports:

1906	$7.65	1923	10.11
1907	8.10	1924	13.76
1908	7.37	1925	7.79
1909	9.28	1926	8.51
1910	10.60	1927	7.07
1911	7.25	1928	6.88
1912	6.89	1929	2.73
1913	9.38	1930	2.75
1914	9.63	1931	2.27
1915	7.88	1932	2.10
1916	10.57	1933	5.08
1917	10.04	1934	1.28
1918	9.64	1935	2.17
1919	11.42	1936	5.43
1920	14.80	1937	5.03
1921	13.00	1938	4.15
1922	11.55	1939	4.16

[33] A I C to C. A. L. Loomis, 9 April 1920; A I C to C. Lamb & Sons, 28 Jan. 1938; A I C to H. W. Aronson, 19 Nov. 1917; F. S. Bell to Laird, Norton Company, 8 Feb. 1919, A I C Papers.

[34] For an estimated average valuation, see Confidential Statement Issued by the Wisconsin Tax Commission, dated 18 Jan. 1921 (in A I C Papers); the statistics were used by the Tax Department of the Chicago and Northwestern Railway to prepare the estimated average valuation. These are the estimates for the counties in which A I C held lands, 1910–20:

County	1910	1920
Ashland	$14.25	$24.25
Barron	32.50	80.50
Bayfield	13.00	24.25
Burnett	11.50	26.75
Chippewa	28.00	70.75
Clark	30.75	67.75
Douglas	–––	24.50
Eau Claire	33.75	63.75
Iron	17.75	26.50
Oneida	12.00	17.50
Polk	26.75	68.50
Price	14.25	23.50
Rusk	15.00	30.50
Sawyer	10.25	15.00
Taylor	17.75	31.75
Vilas	19.75	–––
Washburn	13.00	27.25

One problem that the company and the settler had in common was taxes. Although the company complained about poor settlers and the settlers complained about poor land, they joined forces to protest the high rate of taxation. Between 1906 and 1940, the company paid $1,147,960.65 in land taxes, or $2.62 for every acre sold. Until 1926, taxes totaled more than $50,000 a year. After that date, slow-moving or unsalable land was abandoned systematically, thus bringing tax costs down sharply.[35]

The chief complaints of the settlers and the company were that townships assessed unimproved land at about the same rate as improved land and that a fair share of the tax money was not spent in the area. To correct inequities, the company joined taxpayers' associations and combined with other landowners in requesting state tax investigations. As a final move, the company allowed lands to become tax delinquent. When tax delinquency became a major problem to township officials, they appealed to land owners for counsel. The company replied in words sharpened by long grievance. Taxes, it said, had been out of proportion for so many years that lands had to be released to keep the company out of bankruptcy. The American Immigration Company alone relinquished 108,671 acres, more than one-fifth of its total holdings.[36]

In the midst of its efforts to sell the cut-overs, the company had a

[35] Computation made by the author from the annual statements of the company. The statements are in the possession of Weyerhaeuser and Company.

[36] W. H. Killen, Minneapolis, St. Paul and Sault Ste. Marie Railway Company to J. R. Farr, 20 Aug. 1917; M. Loree to A I C, 18 Jan. 1916; A I C to R. S. Young, 7 Feb. 1916; Henry Albright to E. L. Ainsworth, 9 Feb. 1917; Hugo Kandutsch to A I C, 26 Feb. 1919; A I C to Roy P. Wilcox, 31 Jan. 1939; J. W. Quinn to A I C, 18 Feb. 1938, A I C Papers.

These are the acres abandoned, by counties, taken from the annual report of the company, 30 Dec. 1939. The annual report is in the possession of Weyerhaeuser and Company:

Ashland	560.00
Barron	200.00
Bayfield	16,017.29
Burnett	674.90
Chippewa	2,715.45
Clark	640.59
Douglas	238.67
Iron	320.00
Oneida	2,330.17
Polk	778.32
Price	27,665.59
Rusk	19,992.20
Sawyer	33,063.91
Taylor	1,258.24
Washburn	2,216.12

brief hope that there might be more wealth underground than had been stripped from the top by the loggers. After the Wisconsin State Geological Survey reported strong magnetic attraction, the E. J. Longyear Company explored the land for iron ore. But the stump land would not yield this last treasure. In 1918 the company dismissed the hope when it read the negative report of the engineers.[37]

In 1940, the company that had been trying to go out of business for so many years finally went into liquidation. It had sold 437,945 acres at an average price of $7.58 an acre, while costs were $4.60 an acre. Net income was $2.98 per acre. From 1907 to 1940, $3.51 an acre was distributed to shareholders as dividends or divisions in liquidation.[38]

TABLE 1

	Total	Per acre
Number of acres sold	437,945	
Income from land sales	$3,322,601.00	$7.58
Expenditures		
Taxes	1,147,960.65	2.62
Advertising	62,817.06	.14
Commissions to sales agents	214,558.50	.49
Other	591,619.05	1.35
Total expenditures	2,016,955.26	4.60
Net income	1,305,645.74	2.98
Dividends and division of capital in liquidation	1,538,639.00	3.51

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Thus ended one of the largest and most sustained efforts to sell cut-overs in northern Wisconsin. The company followed the practices of the more conservative companies in selling land and dealing with settlers, met with the same reverses after World War I when a land boom failed to materialize, and struggled with the same problems of high taxes and defaults on payments by buyers. Unlike many of its competitors, it stayed in business long after it was profitable to do so. Costs were cut sharply by reducing the number of employees and relinquishing unsold lands for taxes. It was only after the acreage on hand was reduced to less than ten thousand that the books were finally closed on the operation.

[37] Frederick E. Weyerhaeuser to E. L. Ainsworth, 24 July 1916; A I C to W. A. Webster, 15 April 1918, A I C Papers.

[38] Computation made by the author from the annual reports, with the counsel of Charles J. McGough of Weyerhaeuser and Company. Abandoned lands have not been charged to land expenses.

By Alfred D. Chandler, Jr.
ASSISTANT PROFESSOR OF HISTORY AT THE MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Patterns of American Railroad Finance, 1830-50

When American railroad promoters, in the years immediately after 1830, had to look beyond their own regions for capital, they turned first to Broad Street in Philadelphia, where Nicholas Biddle and his associates served as the agents for marketing vast amounts of sterling bonds in London. This mechanism was disrupted by the failure of the Bank of the United States of Pennsylvania in 1841. Then State Street in Boston became the center, and common stock became the chief instrument, of American railroad finance. The sharp recession of 1847 showed that the Boston capitalists had already made long-term investments in excess of the liquid capital available to them. New York merchants, bankers, and brokers now took up the task of financing the railroads of the South and West, and Wall Street became the undisputed financial center of the country.

Virtually every section of the United States, in the nineteenth century, suffered from a scarcity of local capital for long-term investment. From the very beginning, promoters of railroads and canals had to look to the largest Eastern commercial centers and especially to the money markets of Europe for funds to complete their projects. They had to rely on bonds rather than on stocks as the major instrument for raising capital, since distant investors preferred bonds with their appearance of secure principal and guaranteed income. Bonds were not, as has often been suggested, an after-thought, resorted to only when money could no longer be raised by stock subscriptions.

The sale of bonds to a distant investor required the services of a middleman. Without such aid, American railroads would have had great difficulty in tapping outside capital. During the 1830's, therefore, American railroads and canal builders either went directly to the London money market, where the specialized investment banker already existed, or reached this market through Nicholas Biddle and other bankers and merchants in Philadelphia. In either case, they relied on the sterling bond as the instrument to obtain funds. After 1850, when the nation's investment market was being centralized and institutionalized in New York City, the railroad

builders depended largely on the Wall Street banker and broker to market their mortgage bonds, with principal and interest payable in New York, in other Eastern cities, in Britain and on the Continent.

For a brief time New England remained the one exception to the general pattern. Here until the late 1840's the investor was willing to buy common stock rather than bonds. Here too the manufacturing and mercantile community of Boston, which was the region's primary investment market, was knit closely enough that the railroad promoter often could reach the investor without the services of a middleman. Thus during the 1840's, when Boston was briefly the nation's most important money center, common stock rather than bonds was the most popular means of tapping capital. By the 1850's, however, bonds were paying for the major part of railroad construction even in New England.

The importance of the distant investor and the bond was emphatically brought out during the 1830's, the first decade of railroad construction and the decade of the most extensive canal building. Prior to 1840 nearly all the great east-west projects were financed by public bonds, while the important north-south lines and the Pennsylvania coal roads were largely paid for by sterling bonds of private corporations. Although the public bonds were marketed through New York as well as Philadelphia, nearly all the issues of privately owned railroad and canal companies were sold through the Quaker City.

New York's brilliant success with the Erie Canal inspired other states to finance similar transportation schemes through the sale of large public issues. By the end of the 1830's Massachusetts, Pennsylvania, Virginia, South Carolina, Georgia and several of the new states of the West had authorized large sums for the building of canals and railroads. By then too the bonds of these states were flooding the London money market, some coming directly, others via New York and Philadelphia. These state-supported "public works" were ambitious projects intended to better the local economies by improving transportation between East and West. In the East, they were planned primarily to improve the state's competitive position for the trade of the West; in the West to tap the Eastern markets for their agricultural surpluses. The cost of the extensive east-west projects was too great, their profits too uncertain, to attract private capital. If they were to be built at all, they had to be financed by public loans based on a state's ability to tax rather than by private loans based on a corporation's ability to pay.

The privately financed north-south lines between New York and Wilmington, N.C., and the coal roads and canals of Pennsylvania, were, on the other hand, less ambitious projects. They were shorter, cheaper to build, and, since they connected the nation's largest cities or carried coal to these cities, they were more certain of regular traffic. They therefore promised to be profitable. Yet the merchants and mine owners promoting these roads were often as interested in the benefits the new transportation would bring to their current businesses as in the direct profits of the roads. Hoping to enjoy both direct and indirect benefits from their roads without incurring too heavy an investment or risk, they issued bonds to cover a good share of the building costs. And since investment capital was limited in the United States, they quickly followed the example of the state governments and began to market their bonds in England. So important did the London market become to the railroad promoters of the Middle Atlantic and Southern states that they, again following the example of the states, began to issue their bonds in sterling denominations with the interest and principal payable in London.

The significance of the sterling bond in early American railroad finance is best illustrated by the financial history of the three largest privately financed roads, the Camden and Amboy (with its two subsidiaries, the Philadelphia and Trenton Railroad and the Delaware and Raritan Canal), the Philadelphia, Wilmington and Baltimore, and the Philadelphia and Reading.[1] Both the Reading and the Camden and Amboy, shortly after they began construction, floated twenty-year and thirty-year sterling bond issues secured by mortgages on the road's property and convertible to stock at the holder's option. The long-term convertible mortgage bond initiated here was to remain throughout the nineteenth century the stand-

[1] The history of the Camden and Amboy is summarized in *American Railroad Journal*, XXIX (7 June 1856), 353–5. Hereafter the *Journal* will be cited as *ARJ*. The company's meager annual reports add little. The financial situation of the Philadelphia, Wilmington and Baltimore is given in *The Second Annual Report of the Philadelphia, Wilmington and Baltimore Rail Road Company* (Philadelphia, 1840), 14–15; their third annual report, printed in *Hazard's United States Commercial and Statistical Register*, IV (20 Jan. 1841), 41; and *The Fourth Annual Report of the Philadelphia, Wilmington and Baltimore Rail Road Company* (Philadelphia, 1842), 3–7, 24. For the Reading, see *The Annual Report of the Philadelphia and Reading Railroad . . . , January, 1844* (Philadelphia, 1844), 3–5; *Report of the President and Managers of the Philadelphia and Reading Rail Road Company to the Stockholders, January 13, 1845* (Philadelphia, 1845), 8; and the excellent survey of the road's finances in David A. Neal, *Report Made to the Managers of the Philadelphia and Reading Railroad Company, September 19, 1849* (Philadelphia, 1849), 13–25.

ard type of American railroad bond. These initial issues were followed by others, nearly all sterling, for the London market. By 1837, the Camden and Amboy had outstanding close to $3,000,000 worth of sterling and dollar bonds, and by 1844 the Reading had over $6,000,000 worth; for both roads the value of bonds issued was far more than the value of stock authorized.[2] The Philadelphia, Wilmington and Baltimore, shortly after its organization as a consolidation of three small roads, made two large sterling loans, one in 1839 and the other in 1840.

The north-south lines connecting the Potomac River and Wilmington, N.C., also relied heavily on bonds, a sizable portion of which were sterling issues for the London market.[3] Bonds, though only occasionally sterling issues, contributed to the construction of the smaller coal roads and canals in Pennsylvania as well as the other roads constructed in the 1830's in Pennsylvania, New Jersey, and the states to the South.[4] The only important railroads or canals built south of New York City's metropolitan area to be financed primarily by common stock seem to have been the Lehigh Valley Coal and Navigation, the Georgia, the Georgia Central, the Macon

[2] By 1837 the Camden and Amboy had an authorized stock capitalization of $1,500,000, and long-term bonds issued totaling $2,888,000. In 1844 the Reading had issued $2,010,000 worth of stock shares and $6,641,000 worth of bonds.

[3] The Richmond, Fredericksburg and Potomac, the Petersburg and Roanoke, the Raleigh and Gaston, the Wilmington and Raleigh all issued sterling bonds. The financial histories of the three Virginia railroads are summarized in *ARJ*, XXIX (15 March, April 5, 12, 1856), 172–3, 218–9, 227. For the Wilmington and Raleigh (later the Wilmington and Weldon), see *ARJ*, XXI (31 June 1848), 360; XXII (8 Sept. 1849), 563; and *The Proceedings of the Stockholders of the Wilmington and Raleigh Railroad Company . . . November 14, 1852* (Wilmington, 1852), 6, and an unpaged abstract of accounts. The road made an issue of $226,666 worth of 5 per cent sterling bonds about 1840 and another sterling issue, for $520,000, in 1848. The Raleigh and Gaston's $800,000 state-gauranteed issue is mentioned in Milton S. Heath, "Public Co-operation in Railroad Construction in the Southern United States until 1861" (unpublished Ph.D. dissertation, Harvard University, 1937), 105–6. The Virginia and North Carolina roads also relied, as Heath points out, on state aid.

[4] The coal roads relying on bonds included the Tioga, the Williamsport and Elmira, the Mine Hill and Schuylkill Haven, the Little Schuylkill Navigation, Railroad and Canal Company, the Pottsville and Danville; the coal canals, the Schuylkill Navigation and the Union. Other Pennsylvania roads using bonds were the Cumberland Valley, the Franklin, the Harrisburg and Lancaster, the Philadelphia, Germantown and Norristown; the New Jersey roads were the Morris and Essex and the Elizabeth and Somerville, as well as the Morris Canal; and in Delaware the Chesapeake and Delaware Canal. For these companies see Henry V. Poor, *History of Railroads and Canals of the United States of America* (New York, 1860), 394, 433, 442, 445, 480, 500, 515, 540, 552, 571, 586; Julius I. Bogen, *The Anthracite Railroads* (New York, 1927), 13–15,

and Western, and the South Carolina railroads.[5] But the Southern lines relied heavily on the municipal credit of Charleston and Savannah and the towns along the line of the roads. Moreover, during the depression of the 1840's all these companies turned to raising money by bond issues.

In marketing their securities, the managers of the larger roads south of New York followed closely the methods used by states to dispose of their bonds. Some of the dollar issues were sold directly to the limited number of investors in New York and, more usually, in Philadelphia.[6] The sterling issues were often taken directly to London by railroad officers like Robert Stockton, Moncure Robinson and James Hamilton.[7] These men usually contacted a London banking firm which normally became and remained the company's financial agent in Britain. The privately financed roads, however, relied much less than did the states on the agents of British mercantile houses operating in New York and Boston. Instead they looked, as did most of the smaller roads, to Philadelphia and especially to

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145–6; also the annual report of the Schuylkill Navigation Company, printed in *Hazard's Register*, IV (27 Jan. 1841), 50; and *The Report of the Committee of Investigation Appointed at the Meeting of the Stockholders of the Bank of the United States held January 4, 1841* (Philadelphia, 1841), 29–30, 45–46, 49, 56. Many of these transportation companies also received financial aid from the state of Pennsylvania including the Pottsville and Danville, the Cumberland Valley, the Franklin, the Schuylkill Navigation, the Chesapeake and Delaware Canal, and the Union Canal; see Louis Hartz, *Economic Policy and Democratic Thought, Pennsylvania, 1776–1860* (Cambridge, 1949), 323–6.

[5] For the Southern roads, see *ARJ*, XXVIII (17 Nov. 1855), 729–33; Ulrich B. Phillips, *A History of Transportation in the Eastern Cotton Belt to 1850* (New York, 1908), 244–5, 263–4; Heath, "Public Co-operation in Railroad Construction," 73–98. Some smaller projects, like the Annapolis and Elkridge in Maryland, the Beaver Meadow, the Lykens Valley, the Monongahela Navigation, and one or two other coal transporting companies were able to finance themselves almost wholly by stock; see Poor, *History of Railroads and Canals*, 427, 457, 538, 577. The smaller roads in the West and Southwest used stock shares, many of which were usually taken by the state. The Erie and Kalamazoo and the Lexington and Maysville both made bond issues.

[6] Nearly all the Pennsylvania and Virginia roads had the interest and principal of their bond issues paid in Philadelphia. Michel Chevalier, during his inspection of American railroads, pointed out: "L'argent de Philadelphie a été pour une bonne part dans l'établissement des chemin de fer de Petersburg au Roanoke et de Richmond a Frédéricksburg. Sans lui, jamais la ligne du Nord au Sud ne pousse traverser l'État de la Carolina du Nord qui est l'indigent de la Confederation" — *Lettres sur L'Amérique du Nord* (Paris, France, 1837), II, 74–75.

[7] For Stockton, see *Dictionary of American Biography* (New York, 1928–1936), XVIII, 48–49; for Robinson, see Richard B. Osborne, "Professional Biography of Moncure Robinson," *William and Mary Quarterly*, I (Oct., 1921), 237–60; for Hamilton, see Phillips, *Transportation in the Eastern Cotton Belt*, 195.

Thomas Biddle and Company and to Nicholas Biddle's Bank of the United States of Pennsylvania.

The Biddles did much to give Philadelphia her primacy in railroad finance during the 1830's. Thomas Biddle helped market the securities of the Reading, the Virginia roads, and probably some of the local Pennsylvania roads.[8] The Bank of the United States acted as the fiscal agent for the Reading and other coal roads and was of prime importance in financing the Philadelphia, Wilmington and Baltimore.[9] Nicholas Biddle, America's pioneer investment banker, also used the Bank, as one contemporary expressed it, to funnel American securities into the London market "directly and efficiently through its agent, Mr. Jaudon, planted in London for this *express purpose*."[10] When the Bank failed in 1840, it had large holdings in nearly all the important privately financed roads south of New York.[11]

As long as the British investor continued to consider American securities a good buy, the sterling bond and state issues continued to finance a large part of America's railroad construction. And as long as this faith in America lasted, railroad construction in the United States was concentrated in the states south of New York. Before the end of 1840, close to two-thirds of the 2,800 miles of railroads opened in the United States were built in the coastal states south of New York. On the other hand, after the depression precipi-

[8] Thomas Hankey and Company, Biddle's London correspondent, sold securities for both the Reading and the Virginia roads in the 1840's, and in 1850 continued to be the London fiscal agent for the Virginia roads; see Osborne, in *William and Mary Quarterly*, I, 251; *Bankers' Magazine* (hereafter cited as *BM*), V (Aug., 1850), 173.

[9] Bogen, *Anthracite Railroads*, 23–25; *Fourth Annual Report of the Philadelphia, Wilmington and Baltimore*, 5–6. The Bank also helped finance, and thus controlled, the Morris Canal and Banking Company, itself active in the 1830's in handling state securities, especially those of Michigan; see *Hunt's Merchants' Magazine* (hereafter cited as *Hunt's*), XXII (Feb., 1850), 136.

[10] *Hazard's Register*, I (25 Dec. 1839), 427. Fritz Redlich emphasizes Biddle's role as the United States's "first full-fledged, almost specialized, investment banker" in *The Molding of American Banking, Men and Ideas* (New York, 1951), II, 337–41.

[11] In 1840 the Bank's London agents had $522,222 worth of Camden and Amboy bonds, $811,111 of Philadelphia, Wilmington and Baltimore, and over $500,000 of Reading. Its assets at home included the securities of Virginia and North Carolina roads, several of the embryonic lines in the South and West, and a large number of coal roads, including close to $1.500,000 of the bonds of the Little Schuylkill Navigation and Railroad Coal Company. It also held a loan of over $500,000 of the New York, Providence and Boston, an extension of the north-south route to Boston and one of the very few New England roads to rely on bonds rather than stock before the late 1840's, *Report of the Committee of Investigation . . . of the Bank of the United States*, pp. 26–32, 48–49, 54–58.

tated by the crises of 1837 and 1839 had destroyed British confidence in American securities, railroad building in this area almost ceased.[12] With the coming of the depression, with the cessation of railroad construction, with the failure of Biddle's Bank, with the loss of the foreign market, Philadelphia lost a primacy in American transportation finance which she was never to regain. The same events caused the bond to lose temporarily its primacy as an instrument of railroad finance.

In New York and New England the railroad builders of the 1830's, depended more on local stock subscriptions than did their fellows to the south. The short, inexpensively built lines of central New York were able to supplement local subscriptions by sales of stock to and by occasionally making personal loans from such New York City merchants as John Jacob Astor. New York City's suburban roads, the New York and Harlem, the Long Island, the New Jersey Transportation Company and the Paterson and Ramapo, also were able to pay for construction costs by sale of stock in the metropolis.[13] The stocks of these roads quickly became, with the numerous state securities, the basis for speculative operations on the New York Stock exchange.[14] Thus, though fewer roads went to New York than to Philadelphia for funds, and though no bonds were listed on the exchange as they were in Philadelphia, far more railroad shares were traded weekly on the New York than on the Philadelphia exchange. By the late 1830's, Wall Street brokers were already notorious for their speculating abilities.

The depression of the late 1830's, however, cracked the self-reliance of the New York railroad managers. Between 1837 and 1842, the large majority of railroads in New York received aid from the state treasury. By 1842, when a law ending state support was passed, these roads had received enough money to carry them through the worst of the depression.[15] Yet with the cessation of

[12] For five years after 1840 only 126 miles were reported built in Virginia (and 76 of these were completed in 1841), 86 miles in Pennsylvania, even less in New Jersey, Delaware, Maryland, and North and South Carolina; see Henry V. Poor, *Manual of the Railroads of the United States for 1869–1870* (New York, 1869), pp. xxvi–xxvii.

[13] *ARJ*, XXVIII (26 May 1855), 329–30; XXIX (31 May 1856), 337–38; Poor, *History of Railroads and Canals*, 264, 400–1. The heavy representation of Philadelphia directors in the Long Island Railroad indicates that Philadelphia capital may have financed that road.

[14] For the New York exchange's reputation as the center for speculative operations, see *ARJ*, IV (2 May 1835), 265; XVI (July, 1843), 205–6; and Frederick Jackson, *A Week on Wall Street. By One Who Knows* (New York, 1841).

[15] Poor, *History of Railroads and Canals*, 219, 237–8, 251, 257–8, 265;

state funds, railroad construction in New York State almost stopped.[16] When construction began again in the late 1840's, it was financed primarily by bond issues.

In New England, where stock subscriptions by individuals built nearly all the early railroads, financial self-reliance paid off. With few debts to meet and with profits coming in from textile mills and railroads completed before 1837, New England was the first area to recover from the depression of the late 1830's. While the rest of the country stagnated in the economic doldrums, New England began an industrial expansion which was to make the decade of the forties one of the most prosperous in her history. Shipbuilding boomed, the number of textile mills and spindles operating increased rapidly, and between 1845 and 1851 New England's basic railroad network was completed.[17]

The very conditions which made New England the most prosperous section of the nation in the 1840's were those that made it possible for her to remain for a time the major exception to the standard American pattern of financing railroads by bonds. During the 1830's and 1840's profits from international trade, from shipping and whaling, and from manufacturing, especially from the first textile mills, provided capital which was available for long-term investment. At the same time her first railroads, short and connecting prosperous commercial and manufacturing communities, were as certain of earning regular profits as any railroad projects in the country. With funds available, with railroad profits reasonably sure, the New Englander of the 1830's saw little reason to pay the costs of borrowing money, or, even if his involvement was primarily that of an investor, to limit his income to 6 per cent.

This availability of funds, then, permitted the Bostonians to finance their early railroads as they had their textile mills. It also allowed them the luxury of condemning the methods of finance used in other areas. "Our rule of action for ourselves," wrote Wil-

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Harry H. Pierce, "Public Aid to Railroads in New York" (unpublished Ph.D. dissertation, Cornell University, 1949), Table 2; Frank W. Stevens, *The Beginnings of the New York Central Railroad* (New York, 1926), 172, 183, 338. Before 1837, several New York roads received municipal aid.

[16] Only 122 miles were estimated to have been built in New York between Dec., 1842, and Dec., 1847; see Poor, *History of Railroads and Canals*, 221.

[17] Over 2,200 of the 3,660 miles estimated to have been built in New England before the Civil War were completed in the period from the beginning of 1845 to the end of 1851; Poor, *Manual of the Railroads of the United States for 1869–70 . . .*, pp. xxvi–xxvii. Also, of the 99 railroad charters passed by the Massachusetts Legislature between 1836 and 1848, 72 were passed between 1843 and 1848; *Hunt's*, XXI (Nov., 1849), 536.

liam Sturgis of railroad corporations, "& our advice to others, always is, to *earn* money before dividing it, & to let corporations *get out of debt & keep out of debt*, so far as the nature of their business will permit." [18] Another New Englander in referring to the Reading and other railroads to the south emphasized that: "Indebtedness of any sort is found a hindrance to the success of every enterprise, however well the interest is secured by a surplus of receipts over expenses. Every effort should therefore be made to secure the capital by sale of shares of stock than resort to expedients by hiring money." [19] Yet when it came to financing a large, costly and comparatively risky project like the Western Railroad between Worcester and Albany, the New Englanders were more than willing to depend on bonds guaranteed by the state to be sold to European investors. And when after 1848 surplus funds were no longer available, they turned quickly from the stock share to the bond as the primary way of raising money.

During the 1840's, however, when surplus capital was still plentiful in New England, Boston replaced Philadelphia as the center of American railroad finance. In that decade Boston not only financed new roads in the industrial valleys of the Connecticut, Blackstone, and Merrimack Rivers and across the mountains of New Hampshire and Vermont to the Lake Ontario and the St. Lawrence Valley, but also supplied essential capital to many important railroad enterprises operating outside of New England. By the mid-1840's, the two great Pennsylvania roads, the Reading and the Philadelphia, Wilmington and Baltimore, were relying almost completely on Boston for funds. In 1846 the Reading increased its stock capitalization for the first time since it began construction, raising it some $1,500,000. So many of these new shares, as well as many old ones, were taken by New Englanders, that by 1849 the Boston stockholders controlled the road.[20] By then, such important New Eng-

[18] For Sturgis's comments, see N. S. B. Gras and Henrietta M. Larson, *Casebook in American Business History* (New York, 1939), 124.

[19] Written by Henry V. Poor a month after he left Bangor, Maine, to become editor of the *American Railroad Journal*; see *ARJ*, XXII (10 March 1849), 145.

[20] Neal, *Report to the Managers of the Philadelphia and Reading*, 13; *BM*, IV (Dec., 1849, Jan., 1850), 497, 573. Thayer was a correspondent with the British firm of McCalmont Brothers, which during the 1840's became the Reading's chief representative in Britain. In the 1840's, and especially in the 1850's after the Boston interest in the road declined, McCalmont's New York correspondent, John Gihon and Company, played an important role in the company's affairs. One of the New York firm's partners, John Tucker, became president of the railroad in 1844; see S. F. Van Oss, *American Railroads as Investments* (New York, 1893), 315; Bogen, *Anthracite Railroads*, 31.

land railroad men as John and Nathaniel Thayer, David A. Neal, Nathan Appleton, and William Sturgis, had all become involved in the Reading's affairs. By then, too, Boston controlled the Philadelphia, Wilmington and Baltimore. Two years earlier, in 1847, the New England stockholders had reorganized that road's finances, reducing the debt from 57 to 34 per cent of the total investment, and placing its management under that able New England engineer, William A. Swift.[21] Further to the South, the Boston firm of Henshaw and Ward reorganized the defunct Portsmouth and Roanoke under the new name of the Seaboard and Roanoke, and provided it with New England capital and management.[22] In Georgia, a combination of New Englanders and central New Yorkers did the same for a similarly defunct line, the Monroe road, which they renamed the Macon and Western.[23]

In the 1840's the central New York lines also began to look to Boston for money. Erastus Corning, president of the Utica and Schenectady and director of other lines between Albany and Buffalo, had before 1837 depended on New York merchants, especially John Jacob Astor, for money to supplement the funds raised locally. Now, turning eastward, he began his long and profitable connection with John E. Thayer and John Murray Forbes. In 1844 and 1845, Thayer helped Corning's Utica and Schenectady line market its securities in Boston.[24] He did the same for the Auburn and Rochester, the Auburn and Syracuse, the Attica and Buffalo, and the Syracuse and Utica roads, railroads in which Bostonians had already begun to invest heavily.[25] Late in 1845, Thayer,

[21] *The Tenth Annual Report of the Philadelphia, Wilmington and Baltimore Railroad Company* (Philadelphia, 1848), 4–7; *The Eleventh Annual Report of the Philadelphia, Wilmington and Baltimore Railroad Company* (Philadelphia, 1849), 1–5; *Hunt's*, XXIII (Sept., 1850), 351–2; *BM*, IV (Dec., 1849), 497. In the late 1840's, New Englanders also bought large amounts of New Jersey Transportation Company stock.

[22] *ARJ*, XXIX (19 Jan. 1856), 34–35; *BM*, II (Jan., April, 1848), 454, 640; *Statement in Reference to the Seaboard and Roanoke Railroad* (Boston, 1847), 5–6, 15; *A Letter Addressed to Those Capitalists of Boston Who are Invited to Take Stock in Purchasing and Reviving the Portsmouth and Roanoke Railroad in Virginia, Now Called the Sea-Board and Roanoke Railroad* . . . (Boston, 1847), *passim*; *First Annual Report of the Directors of the Seaboard and Roanoke Railroad Company to the Shareholders* . . . (Boston, 1849), 9.

[23] These men, Daniel Tyler of Norwich, Conn., Azariah Boody of Springfield, Mass., J. G. Forbes of Syracuse, N.Y., and Rufus H. King of Albany, N.Y., found capital in Savannah, Charleston, and New York as well as in New England; see *ARJ*, XX (23 Jan. 1847), 60–61.

[24] Kenneth W. Porter, *John Jacob Astor, Business Man*, 2 vols. (Cambridge, Mass., 1931), II, 1,003; Irene Neu, "A Business Biography of Erastus Corning" (unpublished Ph.D. dissertation, Cornell University, 1950), 88, 91–93.

[25] Watts Sherman of Albany, writing Corning from Boston on 17 May 1844,

Forbes, and Corning joined forces to purchase the dilapidated Michigan Central from the state of Michigan and, in the following years, to finance its construction across the state.[26]

Their venture westward was probably encouraged by the activity in Ohio of other Boston railroad men. In 1845 Samuel Henshaw and William Ward refinanced the Mad River and Lake Erie, placing on the new board Henshaw himself and three other Bostonians, David A. Neal, Matthias P. Sawyer, and Henry Timmins.[27] In that same year, the directors of the Little Miami, which with the Mad River and Lake Erie was to form the first line to connect the Great Lakes with the Ohio River, contacted Nathan Hale, for many years president of the Boston and Worcester. Hale quickly helped the company to raise enough money in Boston to complete its line.[28] In 1845 the Mansfield and Sandusky, though still operating small horse-drawn cars, sold securities in both Boston and New York.[29]

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where he was getting stockholders of the Utica and Schenectady to support Corning's policies, stated that: "an argument which operates *here* much more strongly than any interest the Bostonians have in the Utica Rl Rd stock . . . is the protection of their other Roads *West* of Utica, in which they . . . have very large investments." Sherman continued by stating that for every dollar the Bostonians invested in the Utica road, they had five invested in those to the west. (I am indebted to Dr. Neu for this letter, the original of which is in the Corning manuscripts in Albany, N.Y.) The four-volume account ledger of the retired China merchant, John P. Cushing, in the Bryant and Sturgis papers at Baker Library, Cambridge, Mass., shows that the stocks of the central New York lines not purchased directly from the railroads by that firm were usually purchased from J. E. Thayer and Brothers. See also, *Professional and Industrial History of Suffolk County, Massachusetts* (Boston, 1894), II, 513; and Neu, "Corning," 105.

[26] Neu, "Corning," 104, 107, 109; Henry G. Pearson, *An American Railroad Builder, John Murray Forbes* (Boston, 1911), 24–29.

[27] *The Annual Report of the Mad River and Lake Erie Rail-Road Company, October, 1847* (Sandusky, Ohio, 1850), 11; *The Annual Report of the Mad River and Lake Erie Rail-Road Company, June 17, 1851* (Sandusky, Ohio, 1851), 7. According to the 1850 report, the shares of the road were held as follows: in Ohio, 17,859; in Mass., 15,698; in N.Y., 2,828. The 1847 report stresses that New Englanders preferred stocks to bonds.

[28] *The Annual Reports of the Directors of the Little Miami Railroad for the Years 1843, 1844, 1845, 1847, 1848* (Cincinnati, Ohio, 1849), 28–29, 37 (3rd Annual Report, 1845), 69–70 (Fifth Annual Report, 1847); Black, *Little Miami Railroad*, 49. The 1845 loan was for $200,000 and was secured by a mortgage to William Sturgis and Josiah Quincy of Boston and Timothy Walker of Cincinnati. Far more stocks were sold than bonds.

[29] *ARJ*, XXVIII (2 June 1855), 338–9. The Cushing account ledger further documents the pattern of New England investment before the Civil War. The firm of John Bryant and William Sturgis, which invested Cushing's money for him, had by 1845 placed more of Cushing's funds in railroad securities than in anything except manufacturing stocks. By 1852, railroad securities headed the list. Although the largest portion of these securities were stocks of New England railroads, Cushing in 1845 held blocks of stock in the New Jersey

Except for the Madison and Indianapolis, which in 1845 went to New York for funds, these four roads account for practically all the railroad construction west of the Alleghenies between 1841 and 1849.

Boston's financing of the roads in the South and West, as well as in New England, was done in a personal way. The railroad men coming to Boston for money contacted merchants like Neal, Sturgis, Thayer, or Henshaw, all of whom had an interest in railroads. These men then invested their own money in the enterprise and talked friends and close business acquaintances into taking shares in it. Toward the end of the decade, the firms of John E. Thayer and Brother and Henshaw and Ward were beginning to emerge as middlemen specializing in the buying and selling of railroad securities. Yet when John E. Thayer and John Murray Forbes raised the initial capital of the Michigan Central, Boston's largest single financial railroad venture in the West, they did so by seeking out friends and relatives. The names of the incorporators – Perkins, Cushing, Quincy, Weld, Neal, Brown – form a Who's Who of the closely knit, family-related inner circle of mercantile and manufacturing capitalists who dominated New England's economy.[30] By the fall of 1847, however, Forbes, John W. Brooks, and other managers of the road began to realize that personal connections could hardly supply enough funds to build a large Western railroad. Impelled by the depression beginning at the end of that year, the Michigan Central issued $1,000,000 of 8 per cent convertible mortgage bonds which were sold in large part outside of Forbes' circle of friends and associates.[31]

The depression which demonstrated to Forbes the insufficiencies

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Transportation Company and four central New York roads. Before 1848, the firm had added bonds of the Mad River and Lake Erie and the Little Miami, two Pennsylvania coal roads, and more stocks of New England and central New York lines. Shortly after this, Bryant and Sturgis made large purchases of both stocks and bonds of the Michigan Central and the Philadelphia, Wilmington and Baltimore. Nathan Appleton's investments followed closely those of Cushing's. By 1860, he held securities of the following companies operating outside New England: the New York Central, the Michigan Central and its ally the Chicago, Burlington & Quincy, and the Philadelphia, Wilmington & Baltimore. (I am indebted to Dr. Frances Gregory for information on Appleton's investments.)

[30] Pearson, *Forbes*, 28–30. For a list of incorporators, see *Hunt's*, XXII (Feb., 1850), 139.

[31] *Second Annual Report of the Michigan Central Rail-Road Company to the Stockholders, June, 1848* (Boston, 1848), 5. By the fall of 1849, these bonds were sold at par in the New York market; *Hunt's*, XXI (Nov., 1849), 536.

of personal finance had a profound effect on the story of railroad finance in New England. In the first place, it impelled many other New England railroad managers besides Forbes to turn to bonds to finance construction. Secondly, and more important, it forced Boston to give way to New York as the center of American railroad finance. With so much of her capital tied up in textiles, railroads, Western lands, and Michigan mines, Boston had a far more difficult time than most American cities in meeting the world-wide money stringency created in late 1847 by the collapse of the British railroad boom. Stock prices dropped, money rates rose, and many of Boston's most important business houses failed. More significant, interest rates continued to remain abnormally high in Boston after the rest of the country had recovered from the depression. The editor of the *American Railroad Journal* believed that Boston suffered severely after 1847 just because she had for the previous decade been the nation's financial center: [32]

> The condition of the money market in Massachusetts affords a good illustration of the influence of railroads in absorbing the capital of a community. That State has built more railroads than any other, but she is vastly richer in proportion. She is the most commercial of any, and commerce is the parent of wealth. Her floating capital has been almost entirely invested in railroads and manufacturing establishments. She has not enough left to carry on with ease her ordinary business. She is compelled to borrow from others, till she can, by industry, create sufficient to supply the place of that which she has, for all present practical purposes, lost. This great scarcity of money has depressed the price of her railroad and manufacturing stocks to a ruinous degree, and has placed it out of her power to continue the construction of railroads as formerly, even if she desired to do so.

Compelled to borrow from others, New England railroad men were soon issuing bonds to finance their roads. The new railroads still under construction, like the Michigan Central, the Vermont Central, the Vermont and Massachusetts, the Atlantic and St. Lawrence and its feeder the Androscoggin and Kennebec, the Cheshire, the Naugatuck, the Hartford, Providence and Fishkill, the New Haven and Northampton, and the Boston-financed Northern of New York, had all made their first long-term bond issues before the end of 1849. Such financially weak older New England

[32] *ARJ*, XXIII (20 April 1850), 248. See also *ARJ*, XXIII (24 Aug. 1850), 536; XXIV (11 Jan., 8 March 1851), 26–27, 152–3. For contemporary reports on the effect of the depression on Boston, see *BM*, II (Oct., Nov., 1847, Jan., Feb., June, 1848), 200–5, 327–8, 453–5, 511–2, 705–9; III (Nov., Dec., 1848), 324, 384; IV (March, April, May, 1849), 771–2, 866–8, 911–3; *Hunt's*, XXI (Nov., 1849), 536. For New York's rapid recovery, *Hunt's*, XVIII (March, May, 1848), 297–302, 403–12.

roads as the Old Colony quickly followed suit, and by the end of 1850 even the oldest and soundest Massachusetts roads such as the Boston and Providence and the Boston and Worcester were using bonds as the most satisfactory way of raising money.[33] Although from this time on New England railroads relied heavily on bond issues, enough stock had been subscribed before 1848 to give New England the unique position of being the only section of the United States in the second half of the nineteenth century to have more of its railroad capital in stocks than in bonds.

As the New England depression deepened, New York took over many of Boston's financial responsibilities. "The peculiar condition of the Boston market," *Hunt's Merchants' Magazine* reported in the fall of 1849, "threw on the New York market not only the notes given by New Yorkers for goods purchased there, but also much local paper in addition to obligations of railroads and corporations which could not be placed in New England." [34] For, while Boston was suffering, New York was enjoying real prosperity. As the nation's leading port, she profited most from the rapid expansion of American exports in the second half of the 1840's precipitated by the Irish and German famines and encouraged by the repeal of the Corn Laws. At the same time, the current depression abroad, by forcing down prices of finished goods, especially railroad rails, was stimulating the import trade through the port of New York. Expanding profits from the rapidly growing international trade made it easy for New York to recover quickly from the depression of 1847 and the short but sharp stringency in the spring of 1849. These profits also provided New York merchants, bankers and brokers with funds for long-term investment at the very time when it was no longer in Boston's power to finance railroad construction.[35]

[33] Commentators on the New England railroad scene discussed the use of bonds as a very recent and not too desirable innovation in *Hunt's*, XXIII (Aug., Sept., 1850), 198, 309–10. In January, 1850, $1,027,000 of dividends on railroad stock were paid in Boston, but only $162,000 of interest on bonds; *BM*, IV (Jan., 1850), 579. For the roads listed here, see Joseph G. Martin, *A Century of Finance* (Boston, 1898), 163–5. For the accounts of these roads, see Poor, *History of Railroads and Canals.*

[34] *Hunt's*, XXI (Nov., 1849), 536.

[35] One indication of the growing business and prosperity of the port of New York was the large expansion of bank deposits which occurred there at this time but did not take place in Boston or other commercial centers. Thus in December, 1849, the deposits in New York banks stood at over $27,000,000, while those of Boston were only $4,000,000, even though New York's total banking capital was only $4,000,000 more than Boston's. By Sept., 1850, New York's deposits had risen to over $37,000,000. For differences in deposits and money rates in New York and Boston, see *BM*, IV (Jan., Feb., June, 1850), 579, 674, 1,059–60; V (Aug., Sept., Nov., Dec., 1850), 87–88, 178–80, 262, 432,

At this time, too, Philadelphia, as the financial center of the American iron trade, was having economic difficulties. With the collapse of the railroad boom in Great Britain in 1847, the British manufacturers, tooled up to meet the recent huge demands at home for railroad iron, began to dump their products in the American market. By 1849 the price of iron, rails and railroad equipment was so low that many Pennsylvania mills had been forced to close down or to operate at only irregular intervals.

By the end of the 1840's, then, New York was the only American city with funds available for large-scale railroad construction. At this very time, too, the growing demand for agricultural products, the very low cost of railroad iron and equipment, and the gradual recovery of the South and West from the long depression of the 1840's, were setting the stage for the nation's first great railroad boom. Between 1849 and 1860 the railroad mileage in the United States rose from about 7,000 to over 30,000 miles. In the five states of the Old Northwest the mileage in these years jumped from some 600 miles to close to 10,000. In these years the basic American railroad network east of the Mississippi River was laid down.

From the start this great expansion was financed through New York City. By 1850 such large Eastern lines as the Erie, the central New York roads, the Hudson River, the Harlem, the New Jersey Central, and the Reading were all marketing large bond issues in New York. By then, too, some Southern and more Western roads, including those which had until 1848 relied on Boston, were finding their way to Wall Street. So were many of the New England roads which were then making their initial bond issues. Before the end of 1850 New York's primacy in railroad finance was assured. "If the money had, during the past season, ruled as high in New York as Boston," the editor of the *American Railroad Journal* pointed out that October, "thousands of miles of railroad now in successful progress would have been discontinued." [36]

When the roads came to Wall Street after 1850 they all brought mortgage bonds, usually 7 per cent convertible issues. Unlike the

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511. For statistics of the expanding import and export trade see U.S. Bureau of the Census, *Historical Statistics of the United States, 1789–1945* (Washington, 1949), 245. See also *Hunt's*, XX (April, 1849), 421; XXI (Nov., Dec., 1849), 535–6, 651; XXII (April, May, 1950), 423, 549; XXIV (Feb. 1851), 206.

[36] *ARJ*, XXIII (5 Oct. 1850), 632. The information for this and the succeeding paragraphs comes from a more detailed study of the centralizing and institutionalizing of the American bond market on Wall Street in Alfred D. Chandler, Jr., "The Pen in Business, a Biography of Henry Varnum Poor" (unpublished Ph.D. dissertation, Harvard University, 1952), ch. 6.

early bond issues, none were in sterling denominations and none were payable in London. Except for a tiny handful, all had their interest and principal payable in New York. In the South and West the less speculative roads were able to raise enough money locally through sale of stock to prepare the road for rails, that is, to survey, clear or "grub," grade and ballast the line of the road. Some of these shares were paid for in cash, but more in land and labor. The funds raised by sale of bonds in New York were used to buy rails and equipment. In many cases, however, the bonds covered nearly all the construction costs.

For all its prosperity, New York was able to absorb only a few of the many bond issues that poured into Wall Street during the first years of the 1850's. One of the major causes for the severe depression of the fall of 1851 was New York's over-investment in railroad securities. Yet fortunately for both Wall Street and the West, there was at this time much European capital, especially French and German, seeking investment in the United States. In tapping Continental sources of funds New York had a further advantage over Philadelphia and Boston, since, as the center of American-European trade, New York merchants had many more contacts with the bankers and merchants of Paris, Geneva, Frankfort, and Bremen than did the businessmen of the other seaports. As a result many French, German, and Swiss importing houses joined Wall Street brokers and domestic commission merchants in becoming specialists in the marketing of railroad securities.

With resources of its own available, and with its ability to tap Continental as well as British capital markets, Wall Street was able to finance the great railroad expansion in the South and especially in the West. Thus in the 1850's Wall Street and the mortgage bond played the same role in transportation finance that Boston and common stock had played in the 1840's and that Philadelphia and the sterling bond had played in the 1830's. But because the railroad growth of the 1850's was so much more extensive than the railroad and canal building of the two earlier decades, Wall Street by 1860 was undisputedly the nation's primary market for railroad securities.

By Bernard Mandel
LECTURER IN HISTORY
AT FENN COLLEGE

Gompers and Business Unionism, 1873-90

The development of the administration of business firms has been studied by many scholars in the last 25 years. By comparison, the history of the administration of trade unions is an untouched field; most historians of the American labor movement have dealt only summarily with administrative changes. But efficient internal organization was crucial, in the years after 1873, to trade union survival and growth. Under the prodding of Samuel Gompers, the Cigarmakers' International Union pioneered several improvements. Its major innovations were: centralized control, especially of strikes; benefit payments for sickness, unemployment, and death; high dues and high initiation fees.

One of Samuel Gompers' major contributions to the American labor movement was his leadership in the adoption of a plan of organization known initially as the "new unionism" and later as "business unionism." He developed this scheme from a study of British unions and, even more, from his experiences in the cigarmakers' union.

The depression of 1873–79 fell with shattering force on the Cigarmakers' International Union, which had entered a period of decline in 1869. During these years the cigar mold, a tool for the shaping of cigars, was circumventing the skill of the cigarmakers, permitting the employment of women, children, and unskilled immigrants, and stimulating the transfer of the trade from factories to tenement houses. The International Union immediately prohibited its members from working in any shop where the new "machine" was used.[1]

In New York the cigarmakers struck against the use of the mold. The failure of this strike convinced them that the union must open its doors to unskilled workers. They reorganized their own locals on that basis, and in 1875 they secured an amendment to the constitution of the International which prohibited any local from re-

[1] John R. Commons and others, *History of Labour in the United States*, 4 vols. (New York, 1918–1935), II, 71–74.

jecting members on account of sex or "system of work." [2] The New York local was then recognized by the International, receiving a charter as Local 144. Samuel Gompers was elected president of the new organization and Adolph Strasser, financial secretary.[3]

The New York cigarmakers were, at this time, one of the "strikingest" trades in the country. Strikes were undertaken without considering the state of the trade, without assessing the means needed and those available to conduct the contests, and without formulating a general strategy for the strike movement. On one occasion, Gompers and his shopmates were involved in a strike without being told the reasons for the walkout. Some strikes began when one man left a shop to protest a grievance, and the other workers merely followed him out from a sense of duty or from a fear of being called scabs. Naturally, the great majority of these strikes was lost, the treasury of the union was sapped to no avail, and members left the organization in disgust or discouragement.

Therefore strict control of strikes was a cardinal objective of the new plan of organization introduced by Gompers and his associates into Local 144, which had members in numerous small shops. In each shop with more than seven members, a shop organization met weekly. In the other shops, the members were grouped in district organizations of 200 men or less. Local authority rested with these shop and district organizations. Their delegates, together with the officers of the local, made up the Board of Administration which met weekly to transact general business. Decisions of the Board, on demand of one-third of its delegates, were submitted to referendum vote of all members of the local, as were all appropriations of $25 or more. Union officers were nominated and elected by secret ballot in shop and district meetings.

Any proposal to strike had first to be approved by members of the shop organization by secret ballot. The proposal then went to the Board of Administration. If the Board approved the strike, it appointed a strike committee to direct the struggle. First claim for support by the union went to the workers receiving the lowest wages, because the low-wage factories would not seem inviting to strikebreakers and because the other employers would not unite with their worst competitors to fight the union. "We can thus put a wedge to the lowest point of the trade, relieve greatly and effectively all those suffering by the present operation of these men,

[2] *Cigar Makers' Official Journal*, I (Feb., 1876). Hereafter referred to as the *Journal*.

[3] Samuel Gompers, *Seventy Years of Life and Labor*, 2 vols. (New York, 1925), I, 110-5.

and generally establish a fair Bill of Prices, with an upward tendency," explained the secretary of the German section of Local 144. The union also proposed to set up a labor bureau to which employers and workers might send information of work opportunities.[4]

Gompers soon had an opportunity to extend the application of these principles to a broader field. He was first elected by Local 144 as its delegate to the Cigarmakers' International Union convention in 1877, and he represented his local in every convention from that year until his death. As the representative of the largest local, as an intimate friend and associate of Strasser, whom Gompers made president of the International Union in 1877, and as a young man with strong ideas, ardent enthusiasm for the cause of unionism, a forceful personality, and unflagging energy, it was inevitable that he should rise to a position of leadership in the International. His rapid ascent was based on his policy for reorganizing the union on an efficient foundation, one which would be sound enough and strong enough to make the union a powerful fighting organization, capable of concentrating its forces quickly and at the most strategic point. In the very process of securing a charter from the International for Local 144, he had already won acceptance for the first phase of his program of "new unionism," that is, the recognition of the mold and the opening of the doors of the union to the unskilled workers in the trade. He then set out to carry through the rest of his policy. While this program was not an exclusive invention of Gompers, he played a leading part in evolving it, and an even more important part in securing its adoption by the cigarmakers. Later, as president of the American Federation of Labor, he constantly urged the program upon the affiliated unions.

The first convention attended by Gompers met in Rochester, 30 August 1877. Only eight delegates, representing eight locals, were present; the other nine locals in the International could not afford to send representatives. Gompers introduced and campaigned vigorously for a series of constitutional amendments which provided for the support of unemployed, sick, and traveling members of the union. These proposals were defeated. Naturally, the convention also turned down his proposal for a revamped revenue system which would be needed to finance the program: an annual per capita tax of 60 cents per member, payable monthly. The only proposal from Gompers accepted by the delegates was the recommen-

[4] M. D. Plate to George Hurst, in *Journal*, I (Nov., 1875), 2–3; Gompers, *Life and Labor*, I, 116–8.

dation that each local establish a Labor Bureau to help unemployed members find work. Gompers was so dissatisfied with the work of the convention that he voted against the constitution.[5]

Local 144 had already inaugurated a partial system of benefits. In 1876 it exempted its members from dues payments while they were unemployed due to sickness, and members in good standing were entitled to out-of-work assistance for a period of three weeks.[6] Gompers was convinced that unless such a system of benefits was extended and made universal, the trade union movement had slight chance of permanence. He had seen the depression of the 1870's nearly wipe out the labor unions of the country, and he believed that this was in large measure due to the fact that, when the union was not able to protect wage standards, its members had no impulsion to remain in it. The "fraternal system" would provide the incentive to retain membership during a depression; thus the unions would be prepared to resume the movement for improved conditions as soon as business revived.[7]

Granting that workers joined unions mainly to protect themselves against the "fearful effects of our competitive system," and that the first task of the unions was to increase wages and reduce hours, Gompers maintained that an out-of-work benefit would be instrumental in accomplishing these purposes. He pointed out that those unions having benevolent features were less subject to fluctuations in membership and consequently the working conditions of their members were less affected by dull industrial conditions. Almost any union, he stated, could protect its members during busy seasons; it was far more important to the welfare and progress of the workers to maintain their conditions during hard times. "The very fact that the workers remain organized, ostensibly only for the 'benefits,' is all important, inasmuch as their organization is always a lever to protect them from all the wrong and injustice successfully practiced upon the unorganized." [8] A secondary reason for Gompers' advocacy of the protective system was that it would provide the workers with insurance against the vicissitudes of a chaotic economic system cheaper than such insurance could be obtained from private companies. He was always very hostile to private insurance companies, believing that they were parasites which took

[5] *Journal*, III (Oct., 1877), 3–4.

[6] *Ibid.*, I (Sept., 1876), 1.

[7] Interview reported in the *Iowa State Register* (Des Moines), 3 May 1899; Gompers, Annual Report, *Proceedings of the 13th Annual Convention of the American Federation of Labor*, 1893, p. 12.

[8] *Journal*, XIII (Sept., 1888), 7–8.

financial advantage of the workingmen's distress. He therefore believed that the unions should provide insurance, at least until the government would undertake to furnish it on a voluntary basis.[9]

Gompers' defeat at the 1877 convention did not discourage him – discouragement was a quality foreign to his nature. He was called many things during his lifetime, but everyone agreed that his make-up included large ingredients of dogged persistence and endless patience. He talked to his associates, wrote letters, prepared lectures, working with the zeal of a crusader to win the cigarmakers to his views. His most important early convert to business unionism was Strasser. The two men corresponded on the subject, and discussed it over beer and wine far into the night after meetings. At the next convention in Buffalo in 1879, Gompers' position was fortified by the report of President Strasser, who recommended the adoption of the benefit features. Gompers again presented resolutions for sick, unemployed, and traveling payments, and this time the 11 delegates present approved the proposals. However, they rejected a constitutional amendment to increase dues to 25 cents a week. The Committee on Constitution, of which Gompers was a member, reported that the benefit system could not be financed by the present low dues, and recommended that the question be discussed by the locals in preparation for a decision at the next convention.[10]

Gompers went to the Chicago convention the following year prepared to seal his victory. He was appointed secretary of the Committee on Constitution, which was instructed to draft a law for sick benefits, to be submitted to the locals for approval. The committee proposed that members in good standing be entitled to $3.00 per week for a period of eight weeks, and an indeterminate sum for another eight weeks, with a limit of 16 weeks in a year. Pregnancy was not to constitute a claim for benefits. This plan was approved by the convention, with a clause providing for an increase of dues to 15 cents a week if the plan was adopted. The convention likewise adopted for submission to the locals a resolution offered by Gompers to pay a $25 death benefit to the nearest of kin of deceased members.[11] In order to be eligible, however, the member must have been in good standing for one year prior to his death; this was designed to keep the members "faithful and steady." [12] Both amendments were ratified by the membership.

[9] Gompers, *Life and Labor*, I, 167.
[10] *Journal*, IV (Aug., 1879), 2; *ibid.*, V (Oct., 1879), 2–3.
[11] *Ibid.*, VI (Oct., 1880), 5–7.
[12] *Ibid.*, VI (Dec., 1880), 1.

Gompers claimed that the phenomenal increase in the membership of Local 144 was due to the introduction of these benefits. It had less than 300 members at the beginning of 1881, and over 3,000 by September. At the convention that year, the local so far overshadowed the others that Gompers, one of 53 delegates, held one-third of all the votes.[13]

Strengthened by this voting power and by its victory on the issue of sick benefits, Local 144 later set out to secure jobless benefits. In 1888 it proposed a constitutional amendment providing that each member who had paid dues for a year should be entitled to receive $3.00 during the first week of unemployment and 50 cents per day thereafter, up to $72 a year. But no payment was to be made to members who lost their jobs due to intoxication, disorderly conduct (meaning the contraction of venereal disease), dishonesty, or flagrantly poor workmanship. This was to be accompanied by an increase in dues to 25 cents a week.[14] The membership defeated these amendments by a narrow margin, but in 1889 Gompers re-introduced the proposals and this time they were adopted by the convention and ratified by referendum.[15]

As president of the AFL after 1886, Gompers usually urged in his annual reports that the affiliated organizations adopt a system of benefits; thus those who saw no other value in unionism could be induced to retain their membership.[16] In 1901, he summed up his experience by stating that he was [17]

> convinced beyond the peradventure of a doubt that there are no means so potent to the permanency of organization; to constant betterment in the condition of the workers; to the maintenance of industrial peace . . . and yet with all the gradual economic, social, political and moral improvements of the whole wage-working class; to instill the spirit of fraternity and solidarity among them; as to demand the payment of higher dues in the unions, coupled with the protective and benevolent features of which they admit and of which they are a corollary.
>
> Indeed, there is no factor so calculated to maintain organization during industrial stagnations, crises, or to survive even defeat in contest, as is the possession of a substantial fund raised by the membership *prior* to the stagnation or conflict.

[13] *Ibid.*, VII (Sept., 1881), 5.

[14] *Ibid.*, XIII (July, 1888), 7–8.

[15] *Proceedings*, 18th Session, Cigarmakers' International Union, 16 Sept. 1889, p. 17 (in archives of Cigarmakers' International Union); *Journal*, XIV (Nov., 1888), 11; *ibid.*, XV (Oct., 1889), 9; *ibid.*, XV (Dec., 1889), 11.

[16] See Gompers, Annual Report, *Proceedings of the 3rd* [8th] *Annual Convention of the American Federation of Labor*, 1888, p. 12.

[17] Gompers, Annual Report, *Proceedings of the 21st Annual Convention of the American Federation of Labor*, 1901, pp. 14–15.

The third major phase of Gompers' business unionism, along with the benefit system and high dues, was the mechanism for centralized control of strikes which had been introduced in Local 144 in the mid-1870's. From this beginning, the local made the control even more strict and worked to extend it to the entire union. The New York cigarmakers provided that, in any strike which did not have prior approval from the union, the local itself should send other members to man the shop. The union went even further in 1883 by providing that, if an unauthorized strike was not called off at the demand of the union president, he should advertise for non-union men to fill the places of the strikers, and any member continuing to picket the shop would be fined, suspended, or expelled at the discretion of the union.[18]

In 1879, Local 144 proposed an amendment to the constitution of the International Union to guarantee financial support to members on strike at the rate of $6.00 per week, providing the strike was approved by the Executive Board and the Board of Appeals. The president would then issue a circular appeal for assistance and a weekly assessment on each local in proportion to its membership, sufficient to secure the necessary funds for strike relief. If the Board did not approve the strike, the applicants might appeal to a general vote of all locals. Every strike involving more than ten members would be submitted to a vote of the locals, and those involving demands for wage increases would have to receive a two-thirds vote to be eligible for assistance. Finally, each local would be required to retain in its treasury a sum of 15 cents per member to be used as a strike fund.

Gompers was appointed chairman of a committee of Local 144 to explain the purpose of the proposal, and in pursuit of this assignment he wrote a long letter to the *Cigar Makers' Official Journal*. He pointed out that the system of sporadic assessments then in use caused sudden strains on almost empty treasuries and pockets, and that it was not always a reliable source of revenue. The periodic publication of the state of the strike fund would have another advantage: members would be more cautious in sanctioning strikes if they knew the fund was low and they themselves might be liable for further assessments. Referring to the large number of strikers being forced to return to work from lack of assistance in their struggles, he asserted that it was necessary in time of peace to prepare for war.

Experience has demonstrated that heretofore some of the unions have been

[18] *Journal*, VIII (Aug., 1883), 6.

backward in forwarding their assessment in aid of a strike, whether in consequence of a theory or a lack of discipline is not for our consideration, but the fact remains, that a union, failing to act in accordance with the laws of an organization it is allied with, must be compelled to obey the laws or quit the organization. It is not sufficient (our union holds) for any Union to shelter itself behind a theory that they are opposed to strikes and will not support them. We are aware that notwithstanding opposition from whatever quarter, strikes will occur; that they cannot be argued out of existence; we know that strikes are but preliminary skirmishes to the great battle of labor, and will occur wherever low wages, long hours, and oppressive rules are the conditions under which workingmen toil. While we would urge toilers to avoid strikes otherwise than as a last resort, yet in view of the foregoing facts we hold ourselves in duty bound to array ourselves on the side of labor, and rendering them our hearty and effectual support. . . .

Gompers' arguments must have been persuasive, for the amendment was adopted by a two to one vote.[19] The following year, the convention ruled that strikes resulting from attempted wage reductions, from payment of wages in anything but money, or from lockouts, must be approved and strike benefits paid.[20] In 1881, the International Union adopted the policy of prohibiting all strikes, except against lockouts, wage cuts, and the truck system, from November to April; during that period strike funds would be accumulated.[21] In 1883, the Committee on Strikes recommended that any local assisting another local in an unauthorized strike be considered guilty of a misdemeanor and subject to the discipline of the Executive Board. Gompers proposed that the union countenancing the outlaw strike incur the same penalty, and the amended resolution was adopted.[22]

In 1883 President Strasser reported that during the previous two years there had been 218 applications for strikes, nearly all for wage increases; that 194 of them had been approved; and that about three-fourths of these had been won. At a cost of $77,000, wage increases of nearly $2,000,000 had been gained, besides another $500,000 saved by preventing reductions.[23] But during the next two years, the union's record was not so good, only half of the strikes being successful. This was a fairly remarkable showing for those years of depression, but Gompers was not satisfied. He decided that still more stringent regulations were needed.

In 1885 he was appointed secretary of the Committee on Strikes

[19] *Ibid.*, IV (April, 1879), 2; *ibid.*, IV (May, 1879), 1.
[20] *Ibid.*, VI (Oct., 1880), 8.
[21] *Ibid.*, VII (Oct., 1881), 3 ff.
[22] *Ibid.*, VIII (Sept., 1883), Supplement.
[23] Proceedings of Cigarmakers' International Union, 20 Sept. 1883, in *ibid.*, VIII (Sept., 1883).

at the Cincinnati convention, and he took the opportunity in his report to urge the necessity of "deliberate, yet determined action, to prevent the use of a weapon which may prove disastrous to us unless handled and directed with the greatest caution." He explained:

The question then arises, is it to the best interests of our organization and trade to at all times strike, even when the employer possesses the vantage ground, or is it not better to act like a well-drilled and disciplined army that is directed to reach a certain position, under the very fire of the enemy, with orders *not to shoot*, even amidst the greatest provocation? Certainly some men are shot down and lost; but the ranks are closed up again, and the march is onward until the position is gained, when a volley is fired in return with telling effect. . . . It is not wise nor practical, to *at all times strike, even against a reduction of wages*. The first and main object should be, if a reduction of wages cannot be successfully resisted, accept it; but maintain your organization, for by that means, and that means only, can we at the earliest possible time regain our lost ground, and even something more. . . .

Gompers concluded his report by recommending that all strikes (rather than only those for wage increases) require a two-thirds vote of approval by the membership of the International before being eligible for assistance, and that after a strike had been in progress for three months, and again every month thereafter, another vote be taken on whether aid should be continued or not. He further suggested that when a strike involving over 50 members had lasted eight weeks, the president should appoint a representative of the International to proceed to the locality of the strike, attend all meetings of the local strike committee, make regular reports to the president, and if necessary examine the books and papers of the union. These proposals were all adopted by the delegates, except the one pertaining to periodical votes on the continuance of strike relief, and subsequently ratified by the membership.[24]

Thus the Cigarmakers' International Union, largely through the prodding of the young delegate from New York, perfected one of the most rigid plans of strike control and strike assistance practiced by any union in the country. And Gompers steadfastly defended this policy against the inevitable complaints of locals who were restrained from laying down their tools whenever they wanted to. During the depression of the 1890's, he and the other members of the Executive Board invariably turned down applications to strike for wage increases, feeling that they would be abortive and that the Union would do well to hold its own. If every local could

[24] Proceedings of Cigarmakers' International Union, September, 1885, in *ibid.*, XI (Oct., 1885).

strike at will, "and could draw upon the funds of the International Union *ad libitum*," wrote Gompers, "we might witness the day when nearly all our members in the various localities would be out on strike, drawing upon the funds at one and the same time and leaving our International Union a wreck, to be buffeted and kicked by all, workingmen and employers alike." Under those conditions, he said, the approval of a strike would be merely granting "Sympathy without relief, mustard without beef." The centralized control of strikes had been a major factor in building up the union, and its retention was the only way to maintain the strength of the organization against undisciplined and rash action by the members and attacks by employers.[25]

The program of union benefits and strike assistance obviously necessitated a financial system capable of supporting it. While pushing his plan of business unionism through the International, Gompers also succeeded in having the union adopt a uniform initiation fee of $1.00 for all locals and uniform dues of 10 cents a week (these were increased to $2.00 and 20 cents, respectively, in 1881), the strike fund and assessment system, and a sinking fund of $2.00 per member (Gompers succeeded in getting it raised to $5.00 in 1883). He also secured the adoption by the cigarmakers of the equalization system, a plan widely used in British unions but unusual in the United States. This provided that if the funds of any local became exhausted through legitimate expenditures, it had the right to the funds of the other locals. In other words, the treasuries of the various locals virtually became common property, and every three months they were redistributed on the basis of membership and financial status.[26]

Gompers was a perennial foe of what he called "Cheap John Unionism." In his reports to the AFL, in the *American Federationist*, in his correspondence, and in his addresses to international unions, he drove home the necessity of high dues (in 1907 he urged that $1.00 per month should be the minimum) and high initiation fees (when the Federation formed the national union of tile layers in 1897, its initiation fee was fixed at $99 with the approval of the AFL). "There is not a dollar which the working man and woman pays into an organization of labor," he declared, "which does not come back a hundred fold." He had ready answers to all objections. Wages are low? True, he replied, but if the unions were not

[25] Gompers to the Editor of the *Journal*, 30 Oct. 1895, in *ibid.*, XXI (Nov., 1895), 4.

[26] *Ibid.*, V (Oct., 1879), 2–3.

sustained on an effective financial foundation, then wages would be cut even further, and "The money you refused to pay into your union as dues will go into the coffers of the employers." High dues will keep out new members? When the workers see that the union provides a stone wall of protection for their interests, they will soon come within the walls for protection.[27]

Thousands of strikes, Gompers argued, would be averted and the concessions demanded by the workers secured, if it were not that the employers often knew that the union would soon be compelled to succumb because of its small treasury.[28]

> It may be generally stated as a truism that low dues, low wages, long hours and servility are natural allies and the result of disorganization or organization on the basis of low dues; while, on the other hand, organizations based on high dues, secure for the workers the highest wages, the shortest number of hours of labor, self-respect and respect of others, independence and manhood. . . .
>
> There is no trade union on earth, which has inaugurated the system of high dues and benefits, which has not lived through all the stormy times of industrial, financial and commercial panics and crises. There is no trade union on earth, based upon high dues and benefits, which has failed to keep the promises made to its members. There is no trade union, based upon high dues and benefits, which has not secured the highest and best conditions of labor as compared to other workers. There is no trade union on earth, based upon high dues and benefits, which does not perform the functions of government more honorably, more cheaply and at a lesser cost than any insurance or charitable organization on earth. There is no organization anywhere which gives to its members anything like the returns as do the trade unions.

Gompers' conception of the "new unionism" was compounded of several other ingredients besides the benevolent system, centralized strike control, and a consolidated financial system based on high dues. It included a more efficient plan of local organization, which had already been initiated by Local 144 in 1876 when it directed that each factory select a shop director to collect dues weekly and deliver them to the Board of Administration, to participate in the meetings of the Board and report on subjects of interest occurring in their factories, and to call shop meetings when necessary or on request of one-sixth of the members.[29] Some years later Gompers secured the authorization of the International Union to set up a Greater New York district organization composed of delegates from the New York, Brooklyn, Hoboken, Williamsburg, and Jersey City locals. This joint committee was to meet regularly and to decide on

[27] Gompers, Address to convention of United Textile Workers, Washington, D.C., 18 Nov. 1901, in *American Federationist*, VIII (Dec., 1901), 546.

[28] Gompers, "High Dues are Necessary to Success," *ibid.*, III (Sept., 1896), 141-2.

[29] *Journal*, I (Sept., 1876), 1.

all questions brought before it, subject to appeal to the International Executive Board.[30] The new unionism meant to Gompers the active support of the official journal as a means whereby grievances could be made known to fellow members, opinions mutually exchanged, and, above all, "as a means of promulgating the principles of Trades Unionism and as an agitator for the organization of the working classes. . . ."[31] The new unionism meant the negotiation of trade agreements and their faithful fulfillment. It meant co-operation with other organizations in a national labor federation, and with the cigarmakers' organizations in other countries. In short, it meant whatever was necessary "to develop power adequate to secure better working conditions."[32] It was a "practical" program to secure immediate results through discipline, centralized control, and businesslike methods.

There can be little doubt that more efficient organization was a vital necessity for the weak unions of the 1870's and 1880's, and one of Gompers' principal achievements was his vital role in achieving this organization. But he was sometimes criticized for placing the sanctity of contracts above the solidarity of the working class and for emphasizing the immediate needs of the craft rather than the long-range interests of all wage earners. Gompers denied that the idealism of the unions was incompatible with the adoption of practical and businesslike methods of operation. He answered such criticisms from Jane Addams:[33]

> To make contracts and stick to them, even when they limit or take away the right of striking out of sympathy, is not to sacrifice idealism. To consult actual conditions and the dictates of reasonable expediency before striking or making demands upon employers is not to abandon any ideal ever proposed by intelligent unionists.
>
> The "idealism" of the labor movement consists primarily in this, that the organized workmen in striking to better their own condition and to secure for themselves more equitable treatment are really battling for social and industrial progress.
>
> When the workers raise the standard of living they raise it for all. . . .
>
> The unions are doing the work of society; in Miss Addams' words they are intrusted with the task of social amelioration. Their methods must be governed by circumstances, but no method which really promotes the welfare of union labor can possibly injure any other class.

[30] *Ibid.*, VII (Nov., 1881), 5.
[31] Gompers to the Editor of the *Journal*, I (Feb., 1877), 4.
[32] Gompers, *Life and Labor*, I, 144.
[33] *American Federationist*, XI (Oct., 1904), reprinted in Gompers, *Labor and the Common Welfare* (New York, 1919), 154–5.

BOOK REVIEWS

American Business Corporations until 1860. By Edwin M. Dodd. Cambridge, Harvard University Press, 1954. Pp. xix + 524. $7.50.

The economic, social, and legal historians of recent years have produced a series of excellent economic development studies of which this work becomes another. Dodd's conception of his own contribution is implicit in his comparisons.[1] Cadman's *Corporation in New Jersey* (1949) is "a study of corporation laws in their business and political setting." Hartz, *Economic Policy and Democratic Thought* (Pennsylvania, 1948), and Handlin and Handlin, *Commonwealth: Massachusetts* "are enlightening with respect to the political climate of opinion in which the early corporation laws of Pennsylvania and Massachusetts evolved. They do not purport to be detailed studies of the laws themselves."[2]

It is the gap perceived in Hartz and Handlin which Dodd set out to fill, and with meticulous care and comprehensive industry, he has filled it. Particularly on the Massachusetts and New England materials, to which some 60 per cent of the book is devoted, the job is done. It is hard to believe that any but the most isolated cases or statutory materials will hereafter be discovered in those sources.

The mass of material thus handled is prodigious. A small print list of the individual New England corporations mentioned runs eight pages, and the statutes and cases run 20 pages more. The whole is organized with a systematic clarity typical of Dodd; Professor Chafee's felicitous forepiece quotes a description of Dodd's teaching by a former student who says, "His students never went away confused."[3] The materials are organized both chronologically and functionally, as these few headings from the chapter on Massachusetts business corporation laws, 1831–60, will suggest: railroads, street railways, telegraph companies, turnpike companies, plank road companies, toll-bridge companies, canal companies, water companies, and gas companies.

Such an enumeration and description must not leave the false impression that the volume is simply a giant listing or index. There are, it must be confessed, patches which do no more; one block of five pages on insurance statutes of Massachusetts is a year-by-year summary from 1855 to 1860 of the acts passed, in order, with a synopsis of each.[4] But in the more usual instance, Dodd's sure eye for the legally significant makes him high light the developments that matter, and well-spaced summaries pull together what is worth remembering.[5]

The book does have unrealized aspirations to be what the dust jacket claims for it, "legal history written in social context." Dodd himself criticizes

[1] The work is posthumous, and was completed with editorial assistance, particularly by Professor Zechariah Chafee; but the whole is fairly attributed to Professor Dodd, whose purposes the editors have faithfully served.

[2] P. 200, n. 16.

[3] P. xviii.

[4] Pp. 303–7.

[5] For an excellent example, see p. 325.

one work as discussing legal events "in isolation from the political and economic conditions which produced them."[6] But Dodd was not quite as far removed from that vice as he might have wished, and his own sparse economic and social materials come largely from the cases he quotes[7] or from secondary sources. This is not invariably so; newspaper and legislative materials greatly illuminate the discussion of the development of limited liability, for example.[8] For rounded presentation and for depth on the points chosen to be explored fully, my own choice in recent years of Hartz as a text in American legal history is not shaken upon reading Dodd,[9] and Cadman puts somewhat similar, though less detailed, data in a richer perspective.[10]

But this is by no means to deny Dodd a pre-eminence of his own. Even on familiar subjects, his extraordinary thoroughness gives new light. Both on the topics of the immunity of corporate charters to change (the *Dartmouth College* problem) and on the right of corporations to sue in federal courts, he has found material fresh at least to this reviewer.[11] And when he turns to the New England study, Dodd is in almost virgin territory. Here his legal perception permits him to isolate the truly significant statutory developments, as for example the first banking statutes on increase of capital stock, extension of charters, and mergers,[12] and his comparison of manufacturing with bank and insurance charters.[13]

In the two chapters on the evolution of limited liability in Massachusetts and in the other New England states, Dodd has made his greatest contribution, happily merging technical development and social integregation. What we now take for granted as a most obvious feature of corporations had once to be fought for, and Dodd is an able narrator of the battle. One fragment will indicate a caution against leaping to unproved conclusions which marks the whole work. The proponents of limited liability argued in the late 1820's that the existence of limited liability in Maine and New Hampshre were draining Massachusetts industrial capital into those states; that capital was thus migrating was demonstrably true. But, as Dodd says, Maine and New Hampshire had independent attractions, notably waterpower, and he carefully gathered evidence that the mind of the times was not overpowered by the fugitive capital argument.[14] Every consideration is explored.

No future writers of American corporation history, whether of general or

[6] P. 4.

[7] See, e.g., pp. 123–30.

[8] See notably pp. 337–81, and 391–6.

[9] Cf. Hartz's brilliant treatment of *Sharpless v. Mayor* of Philadelphia, *Economic Policy* etc., pp. 113 to 122, and Waldron's "*Sharpless v. Mayor* of Philadelphia," 1953 Wis. L. Rev. 48, with Dodd's paragraph, p. 162.

[10] Handlin and Handlin makes an excellent companion volume with Dodd, since its corporation discussion is comparatively concise while its political and economic materials illuminate Dodd. For an example of the merger of these techniques, see Dukstra, "Corporations in the Days of the Special Charter," 1949 Wis. L. Rev. 310, 469.

[11] On the *Dartmouth College* problem, see pp. 17–26, and on suits by corporations, 34–41 and 150–5.

[12] P. 206.

[13] P. 229.

[14] Pp. 378–80.

regional studies, can fail to make substantial use of Dodd. His example should encourage other regional studies.

JOHN P. FRANK

Member of the Arizona Bar

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Messrs. William Pepperrell: Merchants at Piscataqua. By Byron Fairchild. Ithaca, New York, Published for the American Historical Association by the Cornell University Press, 1954. Pp. vii + 223. $3.50.

This short, careful study of a merchant family – a book that should interest specialists in both colonial and business history – makes contributions of two kinds. It fills in a corner of pre-Revolutionary economic history, and it contains material relating to larger questions which increasingly command the attention of American historians.

Mr. Fairchild's purpose is clear: it is to recount the experiences in America of the Pepperrell family, made famous by Sir William Pepperrell's command of the expedition that captured from the French the fortress of Louisbourg on Cape Breton Island in 1745. But "although the Louisbourg episode was what enabled the Pepperrells of Piscataqua to escape from oblivion, and a narrow escape it was, their mercantile activities were probably their greatest contribution to the age in which they lived and were certainly the means by which the Pepperrells achieved their own ends. It is the commercial history of the Pepperrells that forms the substance of the book."

Mr. Fairchild has reconstructed this history from the family's manuscript business records which he has located in three main collections and a dozen minor ones. The story covers precisely a century – three generations – from the arrival in America of the West Countryman William Pepperrell in the 1670's to the scattering of the family and its fortunes in the Revolution. The first William was a seaman and fisherman who, like hundreds of others from the west of England, migrated to the Isles of Shoals, off New Hampshire, via the Newfoundland fisheries. Starting as a fisherman, he took small shares in trading voyages and increased his investments until he became the principal owner of a number of vessels. He married the daughter of a recently established Kittery shipwright merchant and established the family's permanent residence in that Maine village at the mouth of the Piscataqua. In the course of the next 50 years he invested shrewdly, keeping a watchful eye on the shifts in markets and supplies, taking advantage of political favors and personal connections. His efforts were well rewarded. In the decade before his death in 1734 he controlled at least 35 vessels, and he was able to bequeath to his son, the future baronet, a substantial fortune in houses, land, and trade.

In dealing with Sir William's career, Mr. Fairchild shifts the emphasis somewhat, away from the details of trade toward the Pepperrells' growing interest in public affairs. Though Sir William was continuously involved in trade he turned his energies increasingly to politics and military operations. This change reflects the growing security of the family and its establishment near the top of British colonial society where affluence entailed leadership in public affairs. Conversely, Sir William was able to enhance his business by government contracts and other political favors. He died, in 1759, not only a man of substance

but also the first native-born American baronet and the first American lieutenant general in the British Army.

Lacking a direct male heir, Sir William passed his fortune and business to his 13-year-old grandson, William Pepperrell Sparhawk, who came of age only in time to throw in his lot with the loyalists at the Revolution. The Pepperrell property was confiscated, and the second Sir William ended his life in the same English countryside his great-grandfather had left as a fisherman a century and a half earlier.

Such is the bare outline of the Pepperrell story. The bulk of the book is devoted to detailed analysis of the Pepperrells' commercial transactions, largely between 1680 and 1750. This careful chronicle of an important firm's dealings over a long period adds impetus to efforts now being made to bring economic history into an area where one may see not graphs and government memoranda so much as people attempting by force or wit, spirit, and luck "to bend," in the Handlins' luminous phrase, "an immediate portion of the visible universe to their wills." Mr. Fairchild has supplied us with an extended example of this concrete and human meaning of economic history. And he has added in specific ways to our knowledge of commercial history in the colonial period.

He notes as a central transition in the Pepperrell fortunes the shift in role from consignment agents of English merchants to independent merchants buying from English agents. He generalizes from the Pepperrell material long enough to minimize the effect of the Sugar Act of 1733, the extent of smuggling by New Englanders, and the reality of that romantic fiction, the "triangular trade." He is well aware that the patterns of Atlantic trade routes in the eighteenth century were in fact very complicated, so complex that static, geometric imagery impedes comprehension of their underlying principles. He correctly points out that this network of commerce was composed of a number of small, regional patterns and that a single merchant like William Pepperrell was involved in but one local section of an interlocked system. He stresses the importance of land as an eventual resolution of commercial fortunes and makes us again aware of the extent of colonial dependence on proper connections in the home country for commercial success.

In such ways Mr. Fairchild has helped to fill in the sketchy, occasionally distorted view of colonial commerce we have inherited from scholars who based their knowledge on state documents and the literature of political controversy. This was his main purpose and in this he has succeeded. But his book contains information bearing on larger problems of a different order. *Messrs. William Pepperrell* does not stand alone; it is the latest of a series of volumes dealing with the history of merchant families in the eighteenth century. Together they form a new genre in colonial historiography, suggesting answers to questions as yet poorly posed.

The first such study to appear was William T. Baxter's *The House of Hancock* (1945). It was followed by Richard Pares' *A West-India Fortune* (1950) and by James B. Hedges' *The Browns of Providence Plantations: Colonial Years* (1952). Material for a similar study appeared as a stout volume of documents: *The John Gray Blount Papers, Vol. I* (1952). With the exception of the last, these books and a score of articles on similar topics are distinguished by two characteristics: they are based on exhaustive use of manuscript business records; and their real subject is family careers stretching over at least two generations. They trace the rise and decline or fulfillment not so much of men and fortunes, but of *families*. All of them supply new information on com-

merce in the colonial period; all of them fill in familiar outlines of economic history. But more important, they furnish the basis for ideas concerning the organization and lines of development of colonial society. Despite the work of several generations of writers we know very little about the nature of American society in the eighteenth century. What were the real characteristics of group life? What were the important divisions among groups? What were the modes of social ascent, the possibilities of movement, and how were they related to political organization and economic activity? At present we answer in terms of stereotypes: a "merchant class"; a "colonial aristocracy"; a "southern gentry"; "frontier democracy."

We have now in these books on merchant families exhaustive career line studies. Glancing across them one may see the outlines of a striking group development. What was the social character of the merchant group? What social goals dominated economic activity? How did trade affect social and political roles? Answers are suggested by *Messrs. William Pepperrell.*

Mr. Fairchild seems now and then to be aware of this fact. In the preface he writes, "The story of the Pepperrells is thus a study in the growth of aristocracy." But since the outline of this larger story is dim while the pattern of commerce is familiar, Mr. Fairchild is able to discuss the Pepperrells' business history, narrowly defined, with clarity. He is most hesitant and least convincing in relating this part of his narrative to the larger problem suggested in his preface. The reader is left with only a shadowy view of the careers of the Pepperrells as episodes "in the growth of aristocracy."

Yet within its modest limits this is a competent study, of direct interest to specialists in early American business history.

BERNARD BAILYN

Harvard University

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American Life Convention, 1906–1952: A Study in the History of Life Insurance. By R. Carlyle Buley. New York, Appleton-Century-Crofts, 1953. 2 vols. Pp. xxx + 680; 681–1,397. $15.

This is an exhaustive, lucidly written history of a key trade association in the field of life insurance. In dramatic style, the story unfolds of a small group of 34 western and southern life insurance companies which banded together initially in a defensive alliance to support the technical principle of the preliminary term method of policy valuation and to espouse the social concept of the state as against the federal government as the unit of supervision.

These pioneers controlled only 4 per cent of the total life insurance in force when they formed the American Life Convention. Today, 48 years later, the association has a membership of some 236 companies. These companies possess approximately 97 per cent of the legal reserve life insurance in the United States and Canada. With the growth in membership and in insurance in force has come a broadening and maturity in objectives and philosophy. Today the range of interests of the American Life Convention runs the gamut of all technical, social and economic problems facing the private life insurance business. As much as any force in the life insurance field, the American Life Convention has preached and practiced the trustee character of life insurance.

To develop his topic, the author utilizes a chronological approach, but he

avoids the dreary quality of hopping from date to date by projecting the procession of events against two frames of reference. First, the history of the association is presented against a backdrop of the entire life insurance business and its problems. Secondly, the economic and social events of the day are woven into the narrative in a skillful, natural way, endowing the historical data of the book with a reality and liveliness not otherwise achievable.

Preparation of the book was a severe challenge for even the most professional historian. The author encountered one of the usual vexations of the business historian. Where are the early records? For the first ten years of its existence, the Convention did not preserve any of its correspondence. So the author had to piece together secondary evidence from the trade journals; interpret committee reports; catch the problems and spirit of the times from the journals and printed annual proceedings; and ferret out occasional letters in the hands of a few scattered individuals. Balanced against an early poverty is the rich, overwhelming abundance of data in the current day. Much of the mass of records is not pertinent, but the careful scholar has to plod laboriously through each item in quest of the hidden nugget of information. Despite the plethora of correspondence, the present day also poses a challenge for the business historian. It lies in the telephone, our most ubiquitous medium of business communication. So often the contents of the call are not recorded and preserved. Thus gaps appear which memory cannot always fill. An even more significant problem which Mr. Buley faced was the current character of his story. The principal actors are still alive. Conflict developed between the written document and the living document. Many ideas remain in a state of struggle in the arena of this business, and even the written document may not carry the denouement.

Despite the many obstacles which plague the writer of business history, this author has sculptured a commendable and professionally artistic job.

The physical aspects of this history are staggering. There are two volumes. The first comprises a mere 680 pages — a sort of warm-up for Volume 2, which contains 1,132 pages of narrative text, topped off by 168 pages of appendices.

Volume 1 is tersely written with little surplusage or insignificant detail. It commences with an excellent general history of life insurance covering the period to the date of the formation of the American Life Convention in 1906. There has been an acute lack of a first-rate, comprehensive general history[1] of life insurance in our country. Part One of Mr. Buley's history helps to fill the vacuum, to an extent. It is written in a lively, dramatic style. It is carefully organized. Standing alone, Part One makes this adventure in reading worth while.

In 1906, the American Life Convention, as a life insurance trade association, came into being. From that point on, the author concentrates on the association, its interaction with the general stream of life insurance, and its relationships with the social and economic ideologies of the day. Personalities begin to emerge as the organization develops a character and a philosophy of management. The author is less skillful in his analysis and description

[1] J. Owen Stalson's book, "Marketing Life Insurance, Its History in America," a Harvard University study in business history, is the most scholarly history of life insurance in the United States. Nevertheless, because of its microscopic devotion to the marketing process, it could only give microscopic coverage of the other facets of the life insurance institution.

of these early leaders than he is in the development of the flow of ideas. The character delineations seem a trifle wooden and not too sharply etched. Volume 1 ends amidst the boundless blue skies of the 1920's.

Volume 2 deals with the depression years; the Roosevelt era; the stunning explosion of the Southeastern Underwriters' case in which the United States Supreme Court reversed itself by repudiating *Paul vs. Virginia* and holding insurance to be interstate commerce and subject to federal regulation; the postwar period down to 1952. Volume 2 is weakened and diluted by an endless string of brief biographical sketches and a plunge into minutiae.

No book is perfect, partly, I suppose, because each reader projects his own experiences, viewpoints and philosophy into his reading. As he does so, he approaches some of the material with enthusiasm, some of it with indifferent acquiescence, and some of it with antagonism. In the narrow path of events which should be chronicled, this book almost completely ignores the impact of insurance education at the collegiate level on the acceptability of the concept of private life insurance, on the supply of trained leaders in the business, on the attitude and objectives of the insurance companies. The companies which compose the membership of the American Life Convention, in turn, have had a significant influence on the pervasiveness and pattern of insurance education. Although reference is made, at occasional points, to Dr. S. S. Huebner, the father of insurance education at the collegiate level, there is little appraisal of his great role in the development of the current life insurance institution.

On the broader road, the author is not an insurance expert. This has the advantage of a fresh approach. But there is the weakness that he may not be able to evaluate with profundity either the practices of the business or the pattern of the future. Perhaps this is not the function of the historian. Maybe all we ask of him is to collect the record in readable and permanent form. Let others try to pierce the veil of the future with the eyes of the present. To pose one problem: What will be the outcome on the marketing process of the widespread group life insurance coverage coupled with National Service Life Insurance and comparatively high Social Security benefits? These topics are covered separately, but they do not seem to be woven together to present a problem facing an organization like the American Life Convention – a problem which must be resolved if private life insurance is to preserve its greatness.

One who reads a book review expects to be told critically whether an investment in the publication is worth the alternative uses of the scarce dollar. For the person who is accustomed to a popular, spoon-fed summary of human events, this book will have little attraction. For the individual with scholarly inclinations and with an interest in the events which have shaped present-day life insurance, this book is indispensable.

Professor Buley deserves high commendation for the monumental task which he has handled in so well-organized a way. This history of the American Life Convention will be a treasure-trove of information and an organizational guide light for future historians in the field of life insurance.

LAURENCE J. ACKERMAN

University of Connecticut

Steam Power on the American Farm. By Reynold M. Wik. Philadelphia, University of Pennsylvania Press, 1953. Pp. ix + 288. $5.00.

According to its author, *Steam Power on the American Farm*

describes the use of steam in meeting a power crisis in the major grain-growing regions of the United States and in helping conquer the agricultural frontiers of the expanding West. The benefits received from the first mechanical power units brought to the farm, the problems involved in the manufacture, distribution, and financing of these engines, and the part played by the men responsible for the successful application of steam power to American agriculture — this is the story related in the following pages.

An opening chapter describes the introduction of steam engines in the early 1800's for grinding sugar cane, threshing rice, and running cotton gins on southern plantations. Subsequent chapters trace the development of a portable agricultural steam engine by the 1840's, self-propelled engines by the 1870's, the steam-engine boom from 1885 to 1912, the distribution, financing and sale of steam-traction engines, and the triumph of gasoline-powered tractors by 1925.

From the standpoints of agricultural history and of general history, the book richly deserved the 1950 Albert J. Beveridge Memorial Fellowship award. Its author has drawn on an amazing array of sources — records of manufacturing companies and other manuscript collections, public documents, pamphlets, machinery catalogues, newspapers, periodicals, articles and personal interviews. Wik's own family seems to have "gone threshing" and to have passed on to him a feeling for one of the more colorful aspects of American agricultural life. He describes the hard and often unrewarding life of a thresherman but also recognizes the intangibles that drew men to such work year after year:

Such intangibles undoubtedly included the smell of drops of oil falling on the hot boiler, the black smoke that followed each shovel of coal, the easy rhythmic "tuck-a-tuck" of the engine when pitchers put the dry bundles into the feeder heads first, the grunting bark of the exhaust when the bundles were wet or went into the feeder crosswise, the hiss of escaping steam when the engine stood idle . . . .

Wik writes carefully, concisely and with due regard to the limitations of his sources. In short, the book sets a high standard in content, methodology and style.

Wik credits steam engines with considerable influence in shaping agricultural life. They helped materially in reducing the man-hours necessary to produce an acre of wheat and they contributed to the development of large-scale farming. Steam engines fitted well into the economy of bonanza farms in the Red River Valley and in California. They helped prepare the farmer psychologically for an era of power farming and they reduced self-sufficiency on the farm. Lastly, they paved the way for the gasoline tractor and its development into the all-purpose farm machine of today. Although it took 90 years to bring agricultural steam engines to a high point of efficiency, the tractor was perfected in half that time, a record made in part by men who were trained in the school of steam-engine experience.

The distribution, financing and sale of steam-traction engines stimulated business changes in related fields. Though imitative of other industries in attempts at trustification, which seem to have failed, steam-engine manufac-

turers, according to Wik, preceded and influenced automobile manufacturers in using a block system of selling. Home offices formulated policies and provided over-all direction. Branch managers supervised blocks of territory assigned to them and directed traveling salesmen under their immediate charge. At one time, J. I. Case Company had branches in 29 states and in several North and South American countries, 900 men on the road, and some 10,000 local dealers. More people seem to have been employed in selling than in manufacturing because of the severe competition among companies. Use of circulars, pamphlets, catalogues and advertisements in trade journals was routine. Some companies sent special trains loaded with threshing outfits across the countryside and showered expectant crowds along the way with circulars and handbills blown from a stacker on one of the display machines. Souvenirs, cigars, and lemonade were served at scheduled stops. Onlookers at state fairs saw steam engines mount inclined planes to the accompaniment of calliope music issuing from the nearby tent of a trade journal.

Business historians and economic theorists will wish for greater recognition of work already done in those fields. When the author speaks of manufacturers of steam engines rising through a poor-boy routine, for instance, one wonders why such men seem to have differed from those in fields already subjected to group study. Wik includes little information on manufacturing itself, virtually nothing on pricing or possible price leadership – Case seems to have exerted some influence here – or on theories of competition. The industry seems to have been highly competitive, with entry fairly easy and the number of firms surprisingly large for the volume of business done. It would have been relatively easy, and revealing as well, for the author to have related his story of marketing to current theories of competition. References to similarities and differences between English and American practices and to the general course of American agricultural development might have had sharper meaning if treated in a theoretical framework. Historical studies like Professor Wik's can provide excellent factual tests for theoretical systems. Had such been done in this case, a very fine book would have achieved even greater usefulness.

LEWIS E. ATHERTON

University of Missouri

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British Immigrants in Industrial America, 1790–1950. By Rowland T. Berthoff. Cambridge, Harvard University Press, 1953. Pp. 296. $5.00.

European Impressions of the American Worker. By Robert W. Smuts. New York, Kings Crown Press, 1953. Pp. 62. $1.50.

Mr. Berthoff's book fills a real gap in the literature about acculturation of immigrant groups in the United States. Perhaps because our British-born population was never regarded as part of what used to be called "the immigrant problem," there is little apologetic literature on the contributions of the British to American society. This is the first important scholarly study of the English, Welsh, Scottish, and to a lesser extent, Canadian immigrant in America. The writer is concerned not only with the contributions of British immigrants to America but also with the impact of America upon them.

He has gathered his material from a variety of manuscript and printed sources on both sides of the Atlantic. His extensive use of the British immi-

grant press in America is particularly noteworthy; the book contains a bibliography of "special periodical sources" which is a more complete guide to these newspapers than it is to American trade and labor journals. Interested as he is in the adjustment of the migrant to American life, he has explored the rather meagre manuscript and printed immigrant letters available in this country. The nineteenth-century newspapers of the United Kingdom remain a large untapped source of letters from British immigrants in the United States.

Since the emphasis of the work is upon the economic and cultural adjustment of the immigrant in America, no contribution is made on the causes of British emigration. In his chapter, "Pies and Puddings," Mr. Berthoff accepts uncritically the findings of Harry Jerome; the British left because of opportunities abroad, not because of hardship at home. Even British writers have not delved into causes of overseas migration from Britain in the last half of the nineteenth century. Without parish statistics of overseas emigration such as the Scandinavian countries and the German states produced, one does not even know which parts of England and Wales contributed the emigrants during the period of the heaviest emigration.

In his discussion of the economic adjustment of the Britisher, Mr. Berthoff singles out the skilled industrial immigrants who formed the largest proportion of the British exodus to America, describing in turn each significant contribution in skill they made to American industry. He differentiates British emigration from the rest of the nineteenth-century movement to America on the grounds that the majority of the British moved in parallel craft-bound streams to comparable jobs in the United States while the balance of the immigrant tide was in the nature of mass movements from European agriculture. He notices no shifts in the skilled versus unskilled composition of British emigration over time, giving only the 50-year averages from admittedly unreliable port records. The proportion of skilled workers in the British contingent, although undoubtedly always high, increased as the century grew older; and Berthoff's account, since it relies heavily on the 1890 census and the findings of the Dillingham commission 20 years later, may give undue weight to the skilled groups. It would be interesting to know whether in fact the best trained men left England, indirectly pushed out of their jobs by the forces of increased mechanization (which forces were later to make America less attractive to them), or whether many of the skilled British emigrants were but a year or two removed from British or Irish agriculture.

In each of the industries in which he found British-born workers, Mr. Berthoff traces a cycle from American industry's reliance upon their know-how to her emancipation through machinery and mass production. As this cycle neared its end, the British were to be found more and more frequently in supervisory positions, although the writer makes no effort to measure this upward movement. The 1890's were the watershed years; afterwards British emigrants sought the Dominions. Berthoff's explanation of the declining interest in the United States in terms of a growing prejudice among employers against British workmen and the deterrent effects of the contract labor laws is perhaps an incomplete diagnosis of what was happening. Surely the maturing of American capitalism and the entry of British immigrants and their children into the growing but not infinitely expandable white-collar class lessened the opportunities to rise in status which had been abundant earlier. It is hard to believe that the few British contract laborers, who were turned back after the restrictive laws achieved some measure of enforceability in the

1890's, had an appreciable influence on the direction of British emigration.

The chapter on the British immigrant in American trade unions is important. While the author emphasizes the craft and benefit union outlook of the former trade unionists who came to America, he tends here, more than in any other part of his book, to catalogue personalities. There is still room for more work to be done in analyzing the influences of the British trade union movement on the rules, organization, and outlook of American unions.

Mr. Berthoff finds the British immigrants' cultural adjustment as easy as their economic. They met no prejudice; they did not live in isolated communities; and they had no maladjusted "second generation." Nevertheless, the author presents much evidence of "Heimweh" and of an attempt through both formal organizations and informal recreations to transplant some of the familiar elements of British culture to America. Among the Scottish and English immigrants, he notes a high proportion of "birds of passage" and noncitizens, charges frequently leveled against the "new immigrants." It was the Irish question, according to Mr. Berthoff, which welded together the British American community and stimulated the movement for naturalization.

The picture given here of British immigrants in industrial America is of skilled people who calculated their chances for improvement shrewdly, and were able to return home if they had made a mistake. The only stories of hardship or misfortune which Mr. Berthoff tells are in his brief discussion of immigrants who chanced Western and Southern farming. It is possible that he has overemphasized the "aristocracy of skill" among the British emigrants, and that humbler immigrants came who are overlooked by the historian.

While Mr. Berthoff found British immigrants lamenting the long hours and hard work in American factories, Mr. Smuts summarizes European impressions of the United States at the turn of the century as well as those of the recent Anglo-American productivity commissions. These European visitors found that American workers did not complain of hard work for several reasons: their high wages enabled them to enjoy a continually rising standard of living, upward social and occupation mobility was always possible for the able, and work in America was less strenuous because mechanization was substituted for hard labor. According to Mr. Smuts, "The value of [the conclusions of European observers] . . . lies in their emphasis on the virtues which the American critic is likely to overlook." This is the reason for reproducing such nuggets as this by an English trade unionist in 1902: "The evident desire of American employers is to increase wages as the best means of encouraging efficiency"; and for noting the delight of foreigners with the "suggestion box" in American factories at a time when trade unions had gained no recognition in mass production industries; and for commenting that in the days of the I. W. W., visitors "escaped the error of explaining American strikes as the product of exploitation," since it was mainly the skilled, union workers who struck. The chief difference between the European impressions in 1900 and 1950 was that in the later period American workers were unionized, although American unions did not, to the same degree as British, try to obstruct production efficiency. As the writer intimates, any American may be surprised to read of the production-mindedness of our ordinary factory and office workers which so impressed their transatlantic visitors in both periods.

CHARLOTTE ERICKSON

National Institute for Economic and Social Research
London

The Gulf, Mobile and Ohio: A Railroad that Had to Expand or Expire. (Indiana University School of Business Study No. 36.) By James Hutton Lemly. Homewood, Illinois, Richard D. Irwin, Inc., 1953. Pp. viii + 347. $6.65.

The two main purposes of this history, according to the author's introduction, are "to study the past in order to gather together the basic facts about the growth" of the Gulf, Mobile & Ohio Railroad and "to examine the collected information in an effort to discover the main factors which have been responsible for the growth of the company in order to determine 'its bearing on the living present and its promise for the future.'" With these objectives in mind, Professor Lemly presents a large amount of factual material and an analysis of the economic problems of the company, but the method of presentation is such that the history reads very slowly and requires the keenest attention on the part of the reader to appreciate which facts are pertinent to the analysis the author is making.

Professor Lemly restricts his history to the one corporation since 1920, although at the end of the volume he adds 55 pages containing brief sketches of the predecessor companies (1871–1920), and the railroads: the Mobile & Ohio (1848–1940), and the Alton (1847–1947). He points out that the latter two roads, which were consolidated with the Gulf, Mobile & Ohio in 1947, deserve to have separate studies made of their history. Also valuable to the business historian would be a history of the companies directly preceding the Gulf, Mobile & Ohio, because so little has been written on the development of administrative policies and operations of railroads prior to 1920, especially in regard to rates, control, competition, and efficiency.

The remarkable success of the Gulf, Mobile & Ohio since 1920 is to a considerable extent due to the executive ability of Isaac Burton Tigrett, formerly president and now chairman of the board. Beginning with a short line between Mobile and Dyersburg, near Memphis, Tigrett and his associates united with other roads until the GM&O now connects Mobile with Chicago via St. Louis, with a line to Kansas City and another to New Orleans. That expansion, even in the difficult 1930's, presents a dramatic story of a small company's persistent struggle to become a major freight carrier between Chicago and the Gulf. But "consolidation in itself would not have solved the short-run problems which beset the Gulf, Mobile & Northern of 1920." (Page 236.) "The quality and continuity of executive direction has been the most important influence on the company's development over the past thirty years." (Page 247.)

These and other conclusions combined with a number of excellent charts are placed in chapters 17–19. It would be a better history if the body of the story integrated the features of this analysis with the development of the administrative efforts. The pedestrian presentation of events, especially for the years 1930–50, detracts from an otherwise good monograph. The illustrations are well chosen and the unique method of enclosing long quotations within a border effectively attracts the reader's attention.

The company granted unrestricted and unsupervised use of its records and files but neither the footnotes nor the bibliography mention the correspondence of the executive department. Professor Lemly's chief reliance appears to have been upon the annual reports, minutes of the directors and stockholders, and

the company's house organ. This volume will be more useful to transportation economists than to business historians.

CHARLES J. KENNEDY

The University of Nebraska

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Rich's of Atlanta: The Story of a Store since 1867. By Henry Givens Baker. Atlanta, Georgia, University of Georgia School of Business Administration, Division of Research, 1953. Pp. 411. $7.50.

This book is a relatively brief account of the eighty-six-year (1867–1953) history of a medium-sized department store, Rich's Inc., of Atlanta, Georgia. Rich's was founded by Morris Rich, a Hungarian Jew who emigrated to the United States with his brothers just before the Civil War. Following a few years as a retail clerk and a house-to-house peddler, he settled in Atlanta and in 1867 opened a small retail dry goods establishment. Conducting a business in a war-devastated area that was burdened with both political and material reconstruction problems was difficult. Even newspaper advertising posed a problem in an area whose Negro and White population was only semiliterate. The store grew only slowly and during most of its history fell behind its competitors in sales. The Great Depression of the 1930's, however, either eliminated or seriously weakened some of Rich's rivals and thereafter the store began to grow. During the 1940's and early '50's it rode the crest of the war and postwar boom and the firm's sales which had in 1939 hovered about the $9,000,000 mark increased by 1953 no less than sixfold.

During its long history and even before its recent surge of prosperity, Rich's was characterized by careful but enterprising management. Apparently no risky financial expedients or revolutionary policies were attempted, and indulgence in sensationalism for purposes of attracting a mass market was ruled out. The type of customers to whom Rich's catered lay somewhere between the carriage trade that patronized Marshall Field's and the thrift-buyers who thronged into Macy's. Like the great Chicago firm, however, it emphasized quality considerably more than price and made such principles as honest advertising, one price to all, and complete satisfaction of the customer its main attraction. Free delivery, charge accounts, and a great deal of institutional type promotion all strengthened the store's middle-class appeal.

There is a definite need for a history of a store of this type. Studies of giants like Marshall Field's, Wanamaker's, and Macy's with their many branches and with sales running into the hundreds of millions serve a distinct purpose; but there are, of course, many more stores like Rich's which serve a limited area and which have comparatively modest sales ambitions. The very fact that throughout most of its history Rich's faced a capable and continuous competition and came off only second best, that it was run by Jewish immigrants, strangers to this war-torn area of America which was supposedly intolerant of anything not "native, White and Protestant" — all these should add to the value and interest of such a history.

Unfortunately this book is disappointing in many respects. Seemingly either adequate source material for the study is lacking or the firm is unwilling to

make public what it has. In any event, the book is based on completely insufficient research materials. Except for occasional references to other sources, the study depends exclusively on issues of the *Atlanta Constitution* and the *Atlanta Journal*. The book has a large appendix in which there is some interesting material such as biographical sketches, excerpts from speeches given by members of the firm, and some miscellaneous statistical matter; but none of the material antedates 1900 and most of it pertains only to the last few years.

The cumulative result is that the book — perhaps through no fault of the author — has so little substance that it is doubtful whether it can either be used satisfactorily by students of business as a case study or even be read with any particular interest by persons who work or trade in Rich's store. So meager were the sources that one will look in vain for anything more than a superficial discussion of even such obvious matters as wages and salaries, employee relations, customer services, buying methods, store organization, and financing problems.

In addition to the lack of sources, a contributing weakness of the study is the purely chronological approach. The book is divided into 15 chapters, each of which deals in succession with about six or seven years of the firm's history. Within each chapter whatever could be gleaned from news stories or the advertisements of Rich's and its competitors during those years is strung together in a simple narration of events. Nowhere is a subject such as the history of the firm's buying organization, its delivery system or its credit policies during any appreciable period examined at length. The result is a deadly repetitious discussion in each chapter of policies which had usually not changed since the period previously discussed. Worse, no clear picture emerges of the developments taking place in any single aspect of the store's activities. Little aid is provided by the index in pulling related material together from the different chapters because it is not by any means complete.

Professor Baker has, however, made an attempt to put Rich's in its proper setting. Much background material on the social and political history of the times has been included, and Rich's place in the history of the city of Atlanta is well defined.

ROBERT W. TWYMAN

Bowling Green State University

Books Reviewed - continued